MARK RESOURCES INC.
1987 ANNUAL REPORT

Index of Graphs and Tables on Inside Back Cover.

Notice of Annual Meeting

Shareholders of Mark Resources Inc. are invited to attend the Annual Meeting at which time the Company's new President and Chief Executive Officer, Mr. Daryl Birnie, will be introduced. The Annual Meeting will take place on June 13, 1988, at 3:00 p.m. in the Commerce Hall of the Commerce Court, West Tower, corner of King Street and Bay Street, Toronto, Ontario. All shareholders are encouraged to attend, however, if unable to, shareholders are requested to complete, sign and return to the Company the enclosed form of Proxy.

Corporate Profile

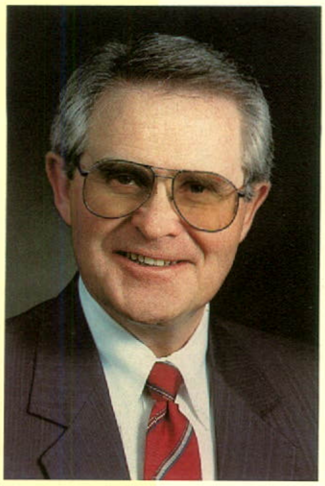
An intermediate-sized oil and gas company with one full year of operation on record, Mark Resources has proven itself to be a company of strong financial performance capability. Currently possessing nearly 30 million barrels of proven and probable crude oil and natural gas liquids reserves and 533 billion cubic feet of proven and probable natural gas reserves, Mark has set its reserves base objective at 50 million barrels of crude oil and 1 trillion cubic feet of natural gas. Through exploration, development and acquisitions, Mark will aggressively pursue a rate of growth which will accomplish its objectives in five years. And, in so doing, a strong performance and return for shareholders is assured.

New President

The Board of Directors of Mark Resources Inc. is pleased to announce that effective March 21, 1988, Mr. Daryl E. Birnie will join the Company in the position of President and Chief Executive Officer. Mr. Birnie brings with him more than 30 years of experience in the Canadian oil and gas industry. He was 21 years with Amoco Canada as Chief Geophysicist and Exploration Superintendent; six years with Voyager Energy Inc. as Vice-President of Exploration and Executive Vice-President; and most recently with Encor Energy Corporation Inc. as Senior Vice-President, Exploration.

Mr. Birnie is a native of Saskatchewan and holds an Honours B.A. degree in Mathematics from the University of Saskatchewan and an M.Sc. in Mathematics from the University of Alberta. He is a member of the Canadian Society of Exploration Geophysicists and the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Mr. Birnie's background in exploration and his overall industry experience with various sized companies will be a significant asset as Mark aggressively expands its exploration and development program.



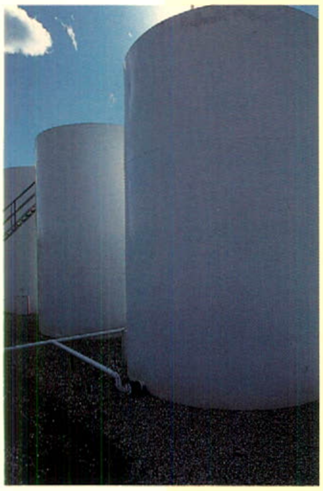
Highlights

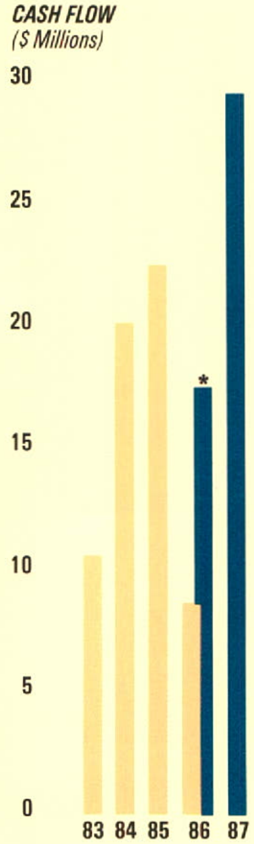
Years Ended December 31

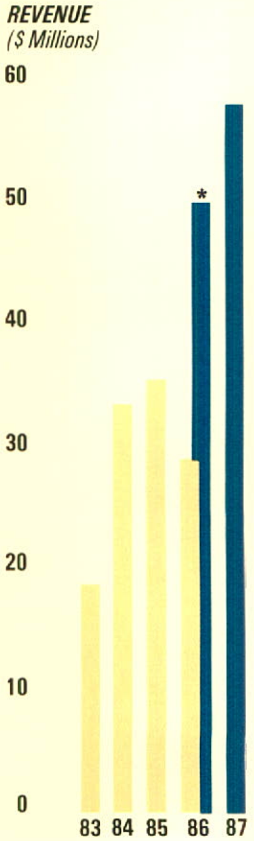
Financial

(Thousands of dollars except per share amounts)

	1987	Proforma 1986	Actual 1986
Revenues	**58,219**	50,280	29,235
Cash Flow From Operations	**29,658**	17,706	8,828
Per Share	**1.49**	0.99	0.88
Net Capital Expenditures	**32,276**	30,107	21,627
Net Earnings (Loss) Before Unusual and Extraordinary Items	**8,079**	(1,236)	(2,011)
Per Share	**0.40**	(0.07)	(0.37)
Net Earnings (Loss)	**10,087**	(1,236)	(54,927)
Per Share	**0.51**	(0.07)	(5.46)
Total Assets	**407,720**	365,058	365,058
Shareholders' Equity	**209,352**	172,555	172,555



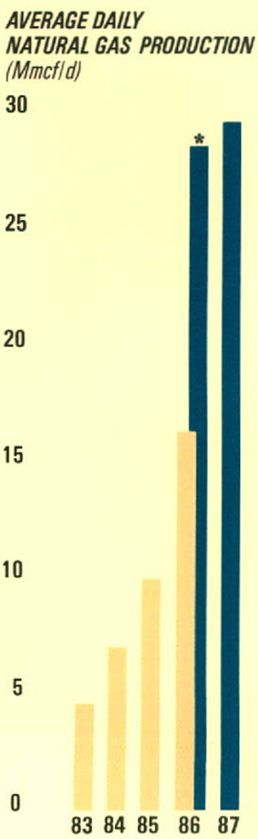


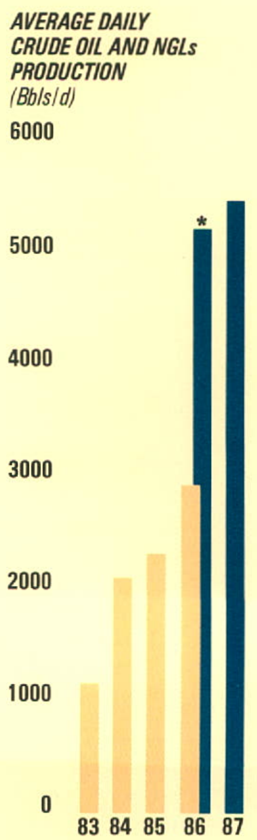


***Proforma 1986.**
This presentation is consistent throughout the report where Proforma information is presented.

Operating

	1987	Proforma 1986	Actual 1986
Production			
Crude Oil and NGLs (Bbls/d)	**5,465**	5,220	2,915
Natural Gas (Mmcf/d)	**29.7**	28.7	16.4
Reserves			
Crude Oil and NGLs (Mbbls)			
– Proven	**22,213**	21,433	21,433
– Probable	**7,107**	6,793	6,793
– Total	**29,320**	28,226	28,226
Natural Gas (Bcf)			
– Proven	**438.4**	414.0	414.0
– Probable	**94.6**	84.0	84.0
– Total	**533.0**	498.0	498.0
Land Holdings (000s)			
– Gross	**5,316**	6,568	6,568
– Net	**1,205**	1,163	1,163
Drilling Activity			
– Oil	**64**	55	26
– Gas	**97**	39	18
– Dry	**36**	39	22
– Total	**197**	133	66
– Success Rate	**81.7%**	70.7%	66.7%





Report to Shareholders

Nineteen eighty-seven was the first full year of operations for Mark Resources Inc., a company which, through the successful combination of Precambrian Shield Resources Limited and Bluesky Oil & Gas Ltd., has emerged with double the assets previously held, strong and growing cash flow, extensive undeveloped land holdings in all the major geological areas of western Canada and the technical and human resources necessary to exploit the Company's strong position in the industry.

During the first half of the year, management's efforts were focused on consolidating the merger of the two companies' operations. The complete integration of the records, files and accounting and land systems of both companies was considered essential before new projects and growth could occur in an orderly manner. Vital data is now immediately available in one format to all departments within the Company.

With the reorganization complete, Mark began to move aggressively to implement its exploration and development programs and to exploit its large reserve base by expanding sales of natural gas.

Implementing an Aggressive Exploration and Development Program

The Company participated in the drilling of 197 wells during 1987. Of the 81 exploratory wells drilled during the year, 28 were successful oil discoveries and 21 were new gas discoveries. The remaining 116 wells drilled were development wells. Reserve additions, booked to date, from the 1987 exploration program amounted to 1,177,300 barrels of crude oil and natural gas liquids and 20.4 billion cubic feet of natural gas.

Increasing Oil Production

Year-end production levels of crude oil and liquids reached 6,300 barrels per day. These expanded volumes are partially due to increased liquids sales from new gas facilities constructed to supply direct sales contracts, allowing production to commence from formerly shut-in natural gas reserves. New oil discoveries resulting from Mark's successful exploration drilling program and the acquisition of Parasol Oil and Gas Ltd. account for the remainder of the increase. 1988 should see average net daily volumes of 6,150 barrels of oil, up 13 per cent from 1987 average volumes of 5,465 barrels per day.

Expanding Natural Gas Sales

Production facilities were installed at Bigstick and Coleville in southwestern Saskatchewan and at North Hoadley in central Alberta, increasing Mark's ability to produce natural gas to 60 million cubic feet per day.

The Company significantly increased its natural gas volumes by obtaining new sales contracts totalling in excess of 15 million cubic feet per day.

By year end, natural gas sales were at a level of 53 million cubic feet per day. The full effect of these increases will be felt in 1988 with an anticipated production of 50 million cubic feet per day, up 68 per cent over 1987 average volumes of 29.7 million cubic feet per day.

Effective July 1, 1987, the Company purchased all the shares of Parasol Oil and Gas Ltd. for a net $14.3 million after working capital adjustments, thereby acquiring proven and probable reserves of 1.9 million barrels of crude oil and 26.5 billion cubic feet of natural gas. At year end, Mark's proven and probable reserves totalled 29.3 million barrels of crude oil and natural gas liquids and 533 billion cubic feet of natural gas, up four per cent and seven per cent respectively from 1986.

As a result of increased production levels and controlled costs, cash flow from operations for the current year increased by 236 per cent over 1986 actuals to $29.7 million. Net income before extraordinary gains was $8.1 million ($0.40 per share) for the 12 months compared with an actual loss, before extraordinary and unusual items, of $2.0 million ($0.37 per share) in the prior year. During the second quarter of 1987, the Company successfully raised $25.3 million in common share equity at $11.00 per share and $25 million in seven per cent convertible debentures. In the final quarter of 1987, Mark received $8 million for development expenditures from the sale of a 50 per cent interest in a natural gas prospect in the Bigstick area of southwestern Saskatchewan.

During the fourth quarter, the Company's subsidiary, Precambrian Shield Resources Limited, entered into exploration flow-through share subscription agreements for a total consideration of $3.5 million in 1987 and up to a further $3.6 million by the end of February 1988. Mark also entered into a flow-through share subscription agreement for a total consideration of $4.0 million for exploration expenditures incurred to February 29, 1988. These funds from operating and financing activities were used to invest $32.3 million in net capital expenditures during the year.

Outlook

Management intends to expand the Company's asset base through increased commitments to exploration of prospects which will add significant reserves.

Mark will continue to identify new geological prospects and develop these opportunities to maximize the value to the Company. Most new domestic exploration is planned at 100 per cent, or as high as possible, working interest ownership which will permit Mark to control the timing of development and marketing activities and maximize benefits to the Company.

Facility projects currently in progress will double the capacity of the Bigstick plant to 16 million cubic feet per day to process additional production from a 75 well development drilling program planned for the first quarter of 1988 and will bring on new volumes at Garrington, Cherhill and Eta Lake in central Alberta. With these and further projects now in the planning stage, the Company's natural gas productive capacity should reach 75 million cubic feet per day by the end of 1988.

During 1988, Mark's exploration program will expand to include prospects for deep sour gas and sulphur, to establish a larger position in the heavy oil areas of western Canada, and to begin to pursue an international exploration program.

After a period of reorganization, the staff and management of the Company were able to turn their complete attention to the Company's core business of finding and producing crude oil and natural gas. Very positive results were achieved during the remainder of the year. On behalf of management and the Board of Directors, we wish to thank the staff of Mark for their dedication and hard work during 1987. Through their ongoing efforts and commitment to developing the established asset base of the Company, Mark will realize significant future growth.

In November 1987, Theodore H. Renner left his position as President and Chief Executive Officer of Mark Resources Inc.. The Board members and employees of Mark appreciate the dedication and leadership provided by Mr. Renner.

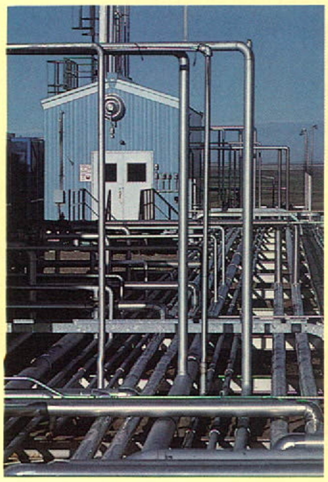
Until the appointment of a new President, the Company's Senior Vice-President, Operations, Mr. Art Eastly, assumed the role of Acting President. Under his guidance, the momentum achieved in all areas of operations continued, setting the stage for an active 1988.

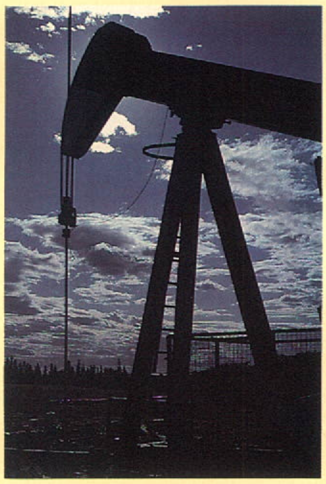
Respectfully submitted,

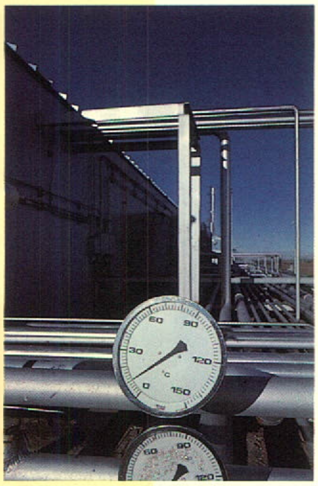
B. W. Harrison
Chairman

Arthur C. Eastly
Senior Vice-President, Operations

March 18, 1988







Industry Position

The past two years have been a time of uncertainty and change for the oil and gas industry worldwide. As the world economy adjusted to changing financial and market conditions, the industry was faced with crude oil oversupply and fluctuating commodity prices.

In North America, competition from cheap fuel oil and coal resulted in a declining natural gas market. This has resulted in lower natural gas demand as well as price reductions at the wellhead of up to 40 per cent since 1985. During 1987, the full impact of the November 1, 1985, Western Accord between the federal government and the three western provinces on deregulation of natural gas markets in Canada was apparent as the industry adapted to competitive market pricing.

Many of the purchasers of direct sales gas during the past year appear to agree with the widely held public misconception that vast oversupplies of natural gas exist which can be bought at bargain basement prices. Much of the natural gas volume being contracted under short-term, direct sales contracts is deliverability type gas which has a low reserve base and a short production life.

The reality is that reliable natural gas supplies, based on reserves which can sustain production volumes over a period of 10 to 15 years, are not substantially out of line with market requirements of the next decade. Mark believes that quality natural gas will be in short supply in the near future and will be able to command premium prices as the market becomes more knowledgeable regarding the oil and gas industry and realizes the importance of long-term security of energy supplies. In the Company's opinion, natural gas prices will commence an upward trend during the coming year.

It is the view of management that crude oil prices, while continuing to fluctuate, will remain relatively flat for the next two to three years as international supply and consumption volumes slowly align. Thereafter, prices should strengthen through the next decade. Price stability in the next two to three years depends largely on OPEC and on how well its various members can discipline themselves with regard to production levels. Downward price spikes in the next few months will probably be required to focus OPEC's attention on the problem and bring agreement on quotas to stabilize the short-term market.

The new Free Trade Agreement between Canada and the United States will, over the longer term, increase our industry's access to the largest single market in the world and lead to substantially higher exports of crude oil, natural gas and petrochemicals, resulting in increased investment and job creation.

The management of Mark views this agreement as a logical extension of the Western Accord, which is moving the industry from a regulated price environment to one of market sensitive pricing. Crude oil and natural gas are international commodities and it would be short-sighted and counter-productive for Canada to try to ignore the reality of the worldwide marketplace.

The most significant aspect of this Agreement for the industry will be in the area of natural gas exports. In the past, Canadian governments have used restrictive measures to interfere with the flow of natural gas to the United States causing the Canadian industry to be viewed as an unreliable energy supplier. As this perception changes, long-term, reserve-based export contracts will once again be available and will enhance Mark's gas sales.

Governments seem to have realized that they cannot direct investment decisions for the industry with any degree of economic success. While the oil and gas industry does not operate in anything approaching free market conditions and remains one of the most regulated and taxed industries in Canada, there has been a relaxation of bureaucratic interference which has substantially benefited the energy industry.

Mark views the future of the Canadian oil and gas industry as being positive. With the industry's long history of cash flow reinvestment, management is confident that future energy requirements of Canadians will be developed and made available at competitive market prices. The Company is planning its strategy for the years ahead and expects to grow, prosper and be a leader in providing Canada's energy in the decades ahead.

Management's Goals and Objectives

Mark has adapted very successfully to industry conditions during the past year and has continued to grow and prosper mainly due to two factors. Historically, the Company has a record of very efficient operations with one of the lowest costs of production in the industry allowing Mark to continue to make a profit when commodity prices reached their lowest levels. Secondly, the Company reacted positively and expeditiously to new marketing opportunities and substantially increased its sales volumes of natural gas and crude oil during the year compared to actual 1986 levels.

As a result, cash flow continued to grow, allowing an expansion of the Company's capital commitments to exploration, development and facilities programs which will result in further growth in the future.

- The Company is redirecting its exploration programs to add significant reserves growth during the next five years. Mark's primary objectives are to increase crude oil and natural gas liquids reserves to 50 million barrels and natural gas reserves to 1.0 trillion cubic feet and to establish net daily production levels of 10,000 barrels of oil and 100 million cubic feet of natural gas while maintaining a reserve life index of 10 to 12 years for oil and 18 to 20 years for natural gas.

Mark has historically been a reserve based producer and having a medium-term life index provides the Company a degree of insulation from short-term weakness in commodity prices. When crude oil and natural gas prices strengthen, the Company will have substantial reserves available for production to capture the higher commodity values.

- Mark will continue to evaluate both corporate and producing property acquisitions. When the economics are attractive, Mark will proceed with those investments which provide synergy with our present operations and promise to enhance the asset value to our shareholders. In each of the past two years, the Company has substantially increased its asset base through the successful acquisition of other companies in the industry. During these times of low commodity prices, it is often more economic to obtain reserves through acquisition rather than by drilling.
- It is the Company's goal to achieve substantial growth in its traditional oil and gas reserves and production levels while increasing participation in deep sour gas prospects. It is also management's goal to establish substantial levels of sulphur sales, to expand Mark's interests in heavy oil properties for development during the next decade, and to commence an international exploration program — all of which will lead to accelerated asset growth in the years ahead.

Mark's Position in the Industry

Land

Mark Resources has an undeveloped land position of 4.4 million gross (1.0 million net) acres in which it retains a significant working interest. The total Company land holdings are 5.3 million gross (1.2 million net) acres. Of the total, 323,639 gross (144,333 net) acres of undeveloped land were added during 1987 for a total acquisition cost of $6.9 million or $48 per net acre acquired.

Land Holdings (Acres) as at December 31, 1987	Developed		Undeveloped		Total		Net Un-developed
	Gross	Net	Gross	Net	Gross	Net	Value
Canada							($000's)
Alberta	689,426	118,242	2,421,406	659,747	3,110,832	777,989	$30,234
Saskatchewan	163,628	91,764	490,392	190,622	654,020	282,386	5,487
British Columbia	83,838	7,838	947,166	70,089	1,031,004	77,927	2,026
Manitoba	80	13	6,269	1,004	6,349	1,017	16
United States	16,269	7,103	498,010	58,516	514,279	65,619	961
Total	**953,241**	**224,960**	**4,363,243**	**979,978**	**5,316,484**	**1,204,938**	**$38,724**

Net realizable value for undeveloped acreage has been estimated by independent land evaluators for Canadian properties and by management for U.S. properties.

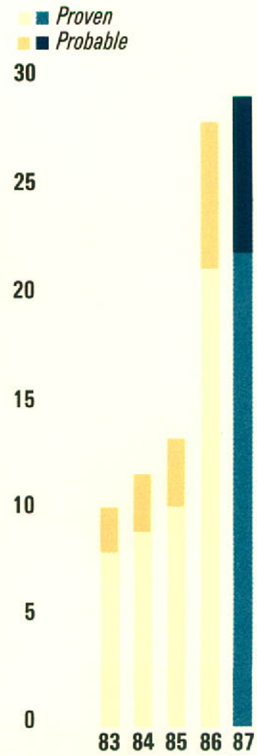
Reserves

Mark's reserve picture was enhanced through 1987 with proven plus probable crude oil reserves, after 1987 production, increasing from 28.2 million barrels to 29.3 million barrels. Proven plus probable natural gas reserves reached 533 billion cubic feet from 498 billion cubic feet. Mark maintained its high proportion of proven reserves with 82 per cent of gas reserves and 76 per cent of oil reserves considered proven. Mark's reserves were evaluated by Sproule Associates Limited of Calgary with the exception of the small proportion of United States reserves which were evaluated by the Company's engineering staff. Present value of future cash flow from Mark's reserves is evaluated at $434 million, discounted at 15 per cent. The crude oil pricing assumptions used to evaluate the reserves, based on deliveries to Edmonton, were $25.44 in 1988 escalating to $40.14 in 1996 and increasing by five per cent per annum thereafter. Natural gas prices estimated for the same years, based on system supply, ranged from $1.54 per thousand cubic feet in 1988 to $3.95 per thousand cubic feet in 1996 and rose by five per cent per annum thereafter.

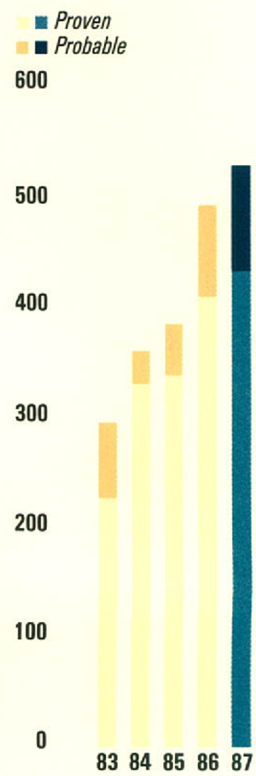
Gross Reserves Reconciliation	Oil & NGLs (mbbls)			Natural Gas (bcf)		
	Proven	Probable	Total	Proven	Probable	Total
At December 31, 1986	21,433	6,793	28,226	414.0	84.0	498.0
Discoveries/extensions	1,162	15	1,177	19.1	1.3	20.4
Acquisitions/(dispositions)	1,251	641	1,892	20.1	2.9	23.0
Revisions	362	(342)	20	(4.0)	6.4	2.4
	24,208	7,107	31,315	449.2	94.6	543.8
Production	(1,995)	–	(1,995)	(10.8)	–	(10.8)
At December 31, 1987	22,213	7,107	29,320	438.4	94.6	533.0

Present Value of Reserves (Millions of dollars)	Present Value Discounted at			
	0%	10%	15%	20%
Proven	$1,591	$567	$403	$306
Probable	250	51	31	20
Total	$1,841	$618	$434	$326

RESERVES CRUDE OIL AND NGLs *(Mmbls)*



RESERVES NATURAL GAS *(Bcf)*

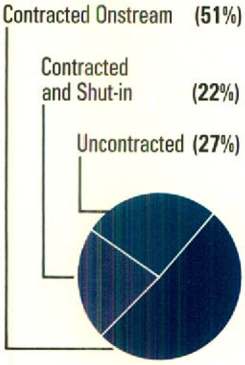


Asset Values
as at December 31

	1987	1986
	($ thousands except per share amounts)	
Present value of crude oil and natural gas reserves discounted at 15% pre-tax - (1)	$433,700	$431,985
Undeveloped acreage - (2)	38,724	32,693
Working capital - (3)	1,685	8,007
Other assets - (3)	2,357	1,839
	476,466	474,524
Long-term debt - (3)	105,677	90,206
Deferred revenue - (3)	5,627	17,492
Minority interest - (4)	26,283	45,801
Preferred shares - (3)	—	1,516
	137,587	155,015
Net asset value	**$338,879**	**$319,509**
Net asset value per share	**$ 16.40**	**$ 17.81**

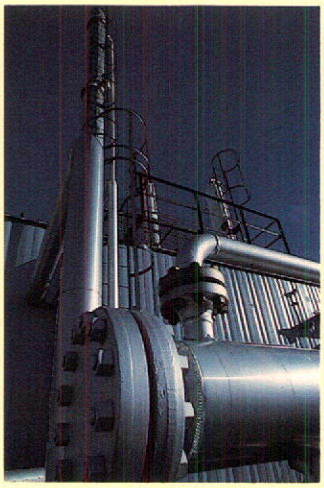
(1) Reserve values were determined by independent engineering consultants except for 1987 and 1986 U.S. reserves which were valued by the Company's engineering staff.
(2) Canadian undeveloped acreage values were determined by independent land evaluators while values for U.S. undeveloped acreage have been determined by the Company's land department staff.
(3) Book value.
(4) Based on similar net asset calculations for Precambrian.

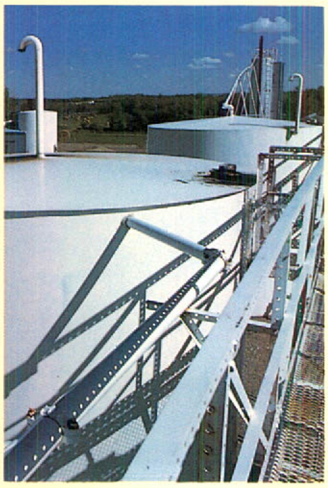
BREAKDOWN OF GAS RESERVES



Natural Gas Marketing

Mark's natural gas marketing efforts proved to be successful through 1987. The deteriorating gas market situation resulted in reduced takes and lower prices from the Company's longer-term, system gas contracts. Mark's new sales volumes more than made up for the lower system gas deliveries by accessing the direct sales market. Timely access to these direct sales markets enabled Mark to aggressively develop shut-in reserves during 1987, resulting in positive economic returns to the Company.





Construction activity in 1987 led to an increased productive capacity by the end of December. It is expected that production capability will reach 75 million cubic feet per day by the end of 1988. These new volumes will be reflected throughout financial and operating reports of 1988. Most of the growth in the natural gas area will be through access of the direct sales market with long-term system gas contracts providing a steady base of sales.

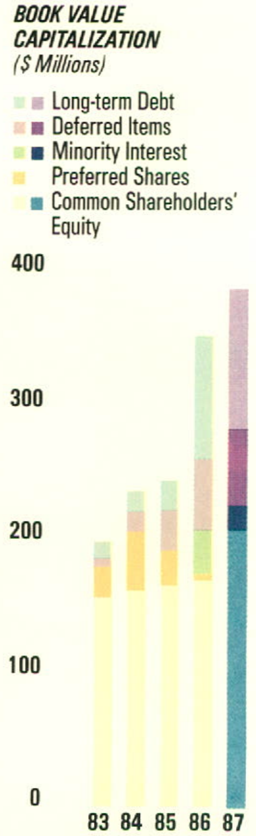
Success in increasing sales of natural gas will substantially increase cash flow and enhance Mark's growth. In addition, these increases will balance the Company's revenue mix between crude oil and natural gas sales, helping to insulate Mark from fluctuating commodity prices. Prior to deregulation of natural gas markets, as much as 75 per cent of the Company's cash flow originated from crude oil sales. By reacting quickly to this new opportunity to sell natural gas directly to end users, the Company has secured new gas sales contracts which, in the past year, have substantially increased production volumes and, by the end of 1988, will result in a better balance in revenue between crude oil and natural gas.

Financial Position

Given the expected pricing scenario along with the Company's demonstrated ability to market new gas supplies, Mark Resources expects to spend approximately $46 million on capital expenditures related to oil and gas exploration and development activity in 1988. These expenditures are expected to be funded out of estimated 1988 cash flow of $32 million to $35 million with the shortfall made up from other sources of capital.

The Company's large and growing production base provides the economic size and financial stability needed for management to aggressively pursue perceived opportunities. On both corporate and operating levels, Mark has the financial strength to invest in development projects or to finance an acquisition for the benefit of the Company's revenue and asset bases. Yet Mark is also of a manageable size which allows for a relatively quick response to potential opportunities. As the Company continues to grow and strengthen, the qualities of market responsiveness and efficiency through cost control will be carefully maintained. It is this optimum size, combining the strengths of a large company with the attributes of a small company, to which Mark will always aspire.

Rather than an end in itself, Mark's growth will achieve the corporate objectives of maximizing the return on investment for our shareholders.



Operations Review

Mark Resources had a very active and successful operating program in 1987. The net capital expenditure program was a record of $32.3 million in 1987.

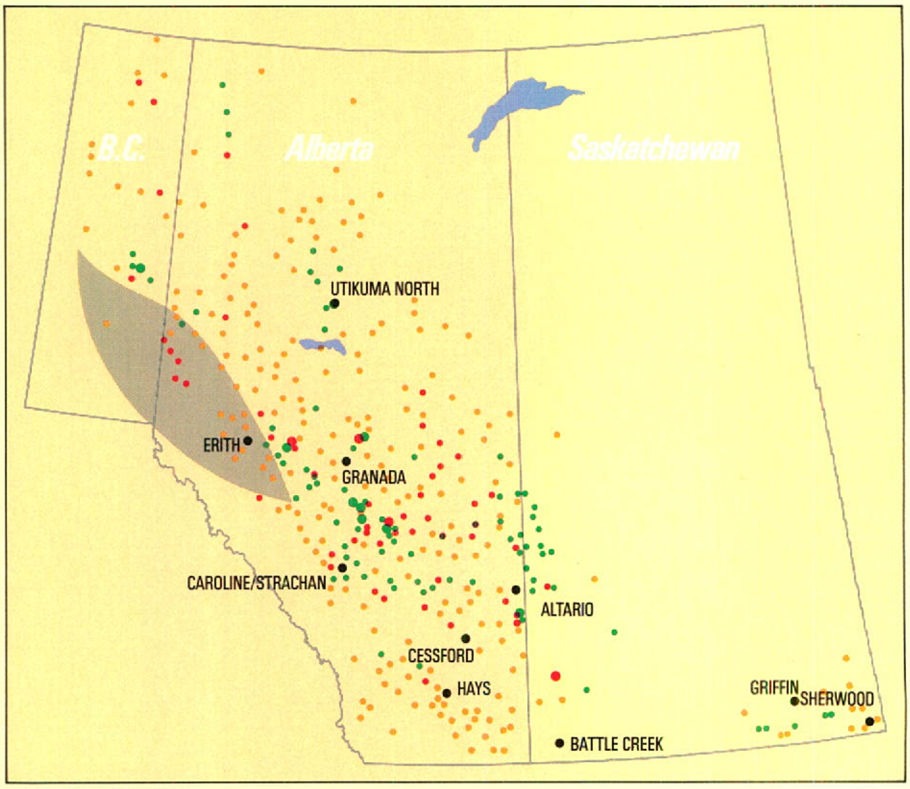
Drilling activity was 88 per cent successful on a net basis for Mark's 197 gross (107.4 net) well program. The 1987 program resulted in 64 oil wells, 97 gas wells and 36 that were dry and abandoned. On a net basis, 17.7 oil, 77.1 gas and 12.6 dry wells were drilled in 1987. Due to a large development drilling program in Saskatchewan, 77.9 net wells were drilled during the year in that province while only 23.3 net wells were drilled in Alberta. The remaining wells were in British Columbia with four in the United States. In 1988, the geographical balance will be similar with an emphasis on Alberta and Saskatchewan. Over the long term, as Mark's activity level continues to grow, the Company intends to further diversify geographically.

Crude oil and natural gas liquids production reached 5,465 barrels per day, up from 5,220 barrels per day in 1986. Natural gas production increased to 29.7 million cubic feet per day from 28.7 million cubic feet per day in 1986. With late 1987 and stepped up 1988 activity, Mark anticipates 1988 production rates to average 6,150 barrels per day of crude oil and 50 million cubic feet per day of natural gas.

The accelerated activity planned for 1988 is anticipated to be reflected in greater production increases in 1988 compared to 1987 as well as significantly larger increases to the reserves base and net asset value of the Company.

Selected Operating Data

	1987	Proforma 1986	1986
Drilling Activity			
Gross – Oil	**64**	55	26
– Gas	**97**	39	18
– Dry	**36**	39	22
Total Gross Wells	**197**	133	66
Net – Oil	**17.7**	9.2	5.3
– Gas	**77.1**	9.8	7.3
– Dry	**12.6**	11.1	8.0
Total Net Wells	**107.4**	30.1	20.6
Capital Expenditures ($ thousands)	**32,276**	30,107	21,627
Average Daily Production			
Crude Oil and NGLs (Bbls)	**5,465**	5,220	2,915
Natural Gas (Mmcf)	**29.7**	28.7	16.4



WESTERN CANADA

- Top 10 Exploration Properties
- Oil Producing Property
- Gas Producing Property
- Undeveloped Property

Summary of Undeveloped Acreage

As at December 31, 1987

	Gross Acres	Net Acres
Canada		
Alberta	2,421,406	659,747
Saskatchewan	490,392	190,622
British Columbia	947,166	70,089
Manitoba	6,269	1,004
United States	498,010	58,516
Total Company	4,363,243	979,978

Oil and Gas Exploration Activities

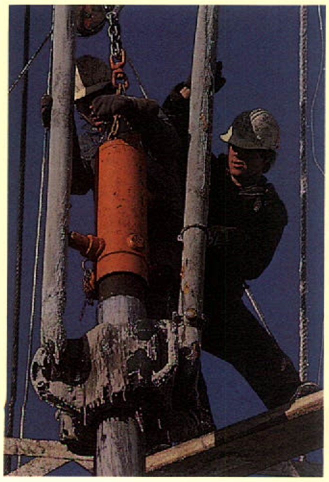
For the first half of 1987, Mark was consolidating its operations activity and defining a new direction for its exploration program. In the second half of 1987, the exploration group began systematic evaluation of its 980,000 acres of undeveloped land on which a number of drilling opportunities have been identified. Mark will explore for oil and gas equally, as significant reserve additions in each area are key objectives of the overall operating program.

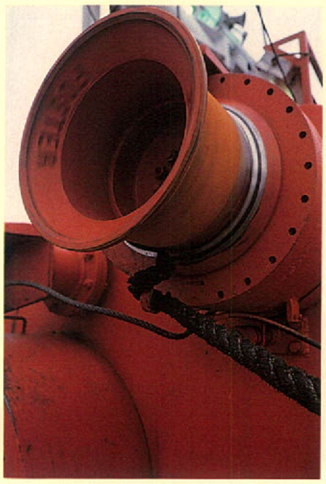
In 1987, 81 gross (31.7 net) exploratory wells were drilled. The program produced 28 gross (8.8 net) oil wells, 21 gross (12.7 net) gas wells and 32 gross (10.2 net) wells were dry and abandoned.

The exploration program for 1988 will be expanded over 1987. Mark will participate in up to 100 exploration wells during 1988, maintaining an average working interest of 50 per cent or greater. Many of the 1988 drilling locations will be defined utilizing seismic, with plans to shoot up to 1,000 miles of new data. As well, selected projects will be evaluated utilizing state-of-the-art 3D seismic.

Drilling Activity

		1987		Proforma 1986		1986	
		Gross	Net	Gross	Net	Gross	Net
Exploratory wells	– Oil	**28**	**8.8**	16	4.6	8	2.9
	– Gas	**21**	**12.7**	22	5.4	9	3.2
	– Dry	**32**	**10.2**	36	10.3	19	7.2
Total		**81**	**31.7**	74	20.3	36	13.3
Development wells		**116**	**75.7**	59	9.8	30	7.3
Total Company wells		**197**	**107.4**	133	30.1	66	20.6
Success ratio %		**81.7**	**88.3**	70.7	63.1	66.7	61.2

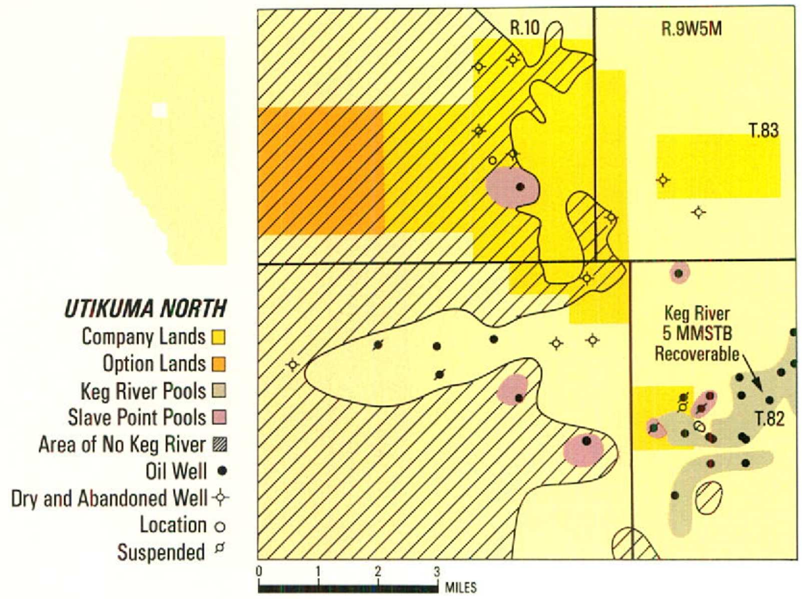




Exploration Property Review

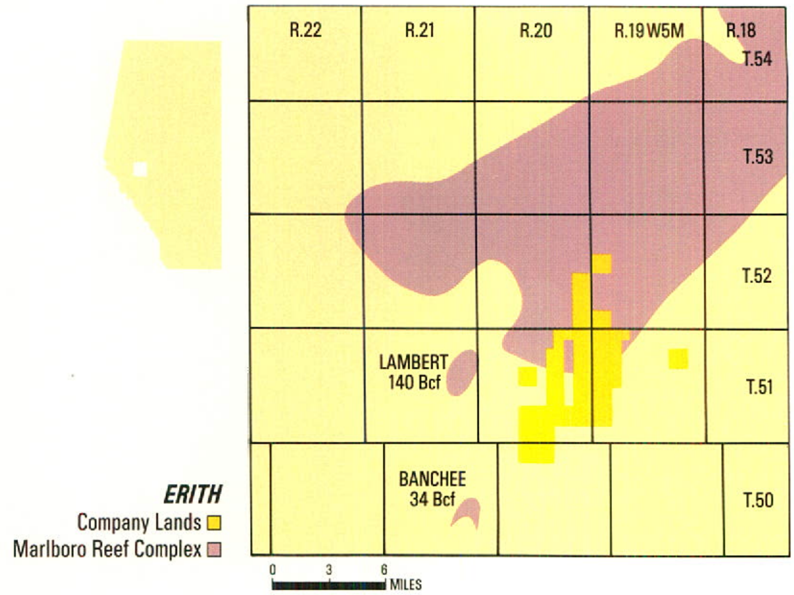
Utikuma North, Alberta

An oil area, Utikuma North is the focus of extensive seismic studies. Initial studies in 1987 were promising, prompting Mark to negotiate a farm-in and option on an eight section block adjacent to currently held Company acreage. A test oil well was drilled in early 1988. With the initial success, Mark will carry out additional seismic programs to identify optimum locations for the remainder of the drilling program, in which Mark will have a 50 per cent working interest.



Erith, Alberta

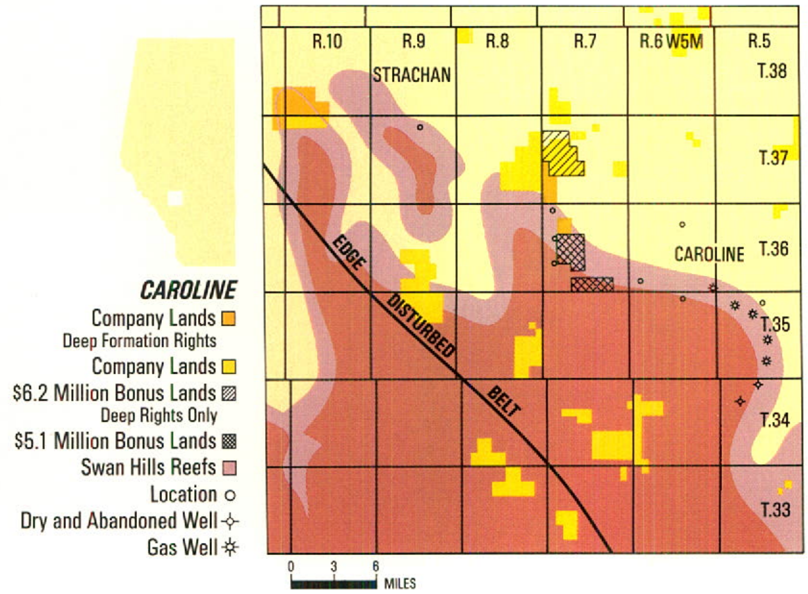
The Company has working interests ranging from 10 to 50 per cent in 18,560 acres in this region. The target geological formation is the Devonian Leduc horizon which is anticipated to have up to 250 feet of pay and could contain up to 170 billion cubic feet of gas. Sulphur associated with the gas is estimated to be 1,500,000 tons. Mark has shot seismic and will be evaluating potential drilling locations.

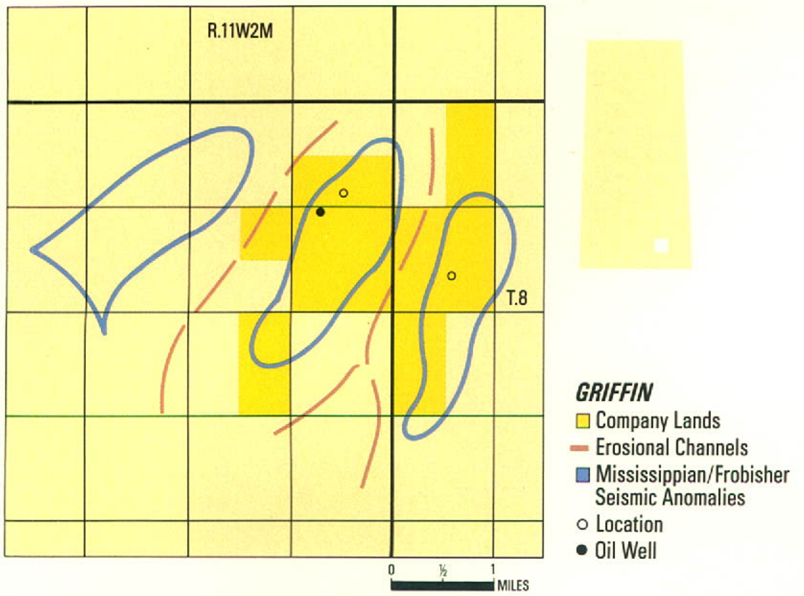


Caroline Area, Alberta

Mark holds a 50 per cent interest in 2,240 acres in the active Caroline area. The targeted reserves are part of the Swan Hills sour gas trend which are estimated to yield 30 to 40 billion cubic feet of reserves per section. Because the gas is sour, sulphur recoveries should range from 300,000 to 400,000 tons per section. Mark is currently evaluating its lands in this area with seismic.

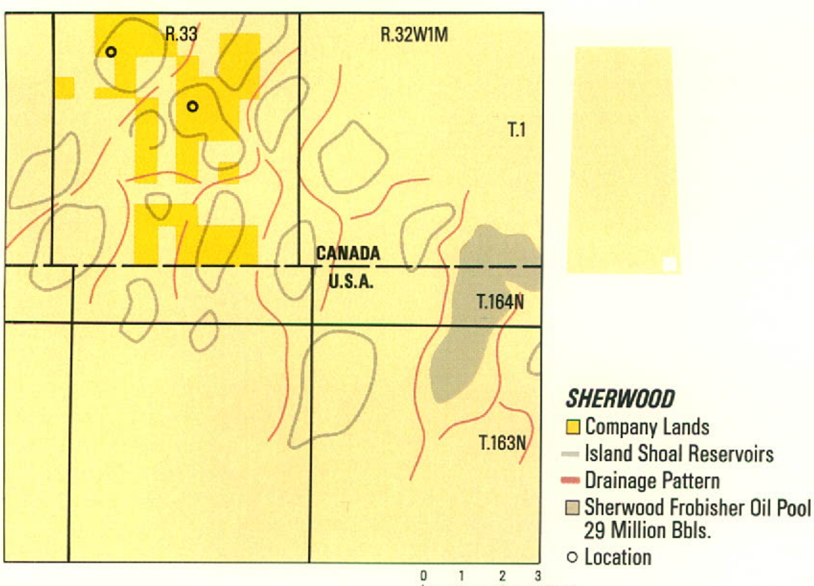
Further west at Strachan, Mark has a 100 per cent working interest in 5,120 acres which are also positioned along the potential Swan Hills gas trend. Similar seismic studies are being conducted at Strachan.





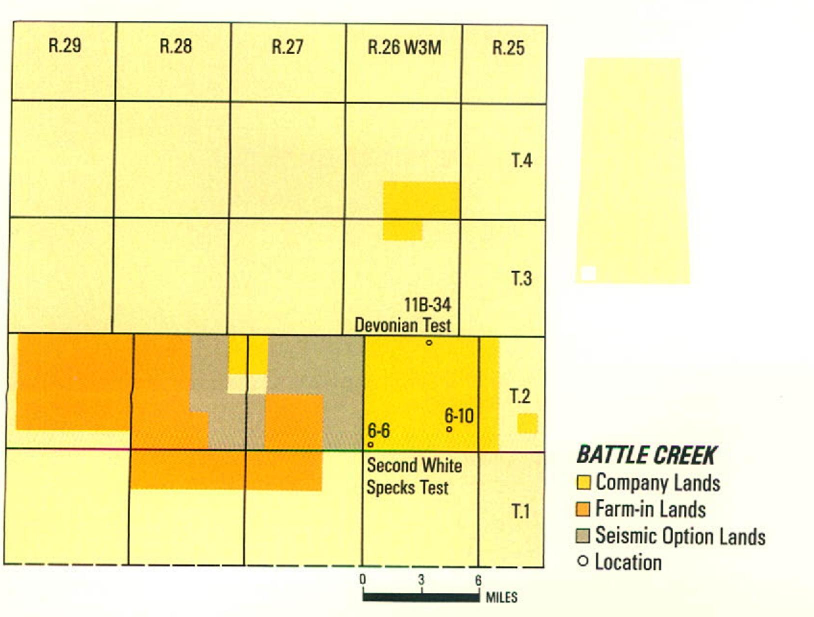
Griffin, Saskatchewan

Mark acquired a 50 per cent working interest in 3,160 acres on which a successful test well was drilled resulting in a medium gravity oil discovery in the Mississippian Frobisher formation. Reserve potential could be as high as 1 million barrels recoverable per section. Adjacent lands have been secured by Mark and its partner allowing for development of the area in early 1988.



Sherwood, Saskatchewan

This area is another 100 per cent interest area for Mark. With a good land position of 5,000 acres of freehold and 2,000 acres of Crown land, Mark has begun to drill to the Mississippian Frobisher formation. The reserve potential in this type of reservoir could be as high as 4 million barrels of recoverable oil per section. Further drilling, to follow-up the test well drilled in the fourth quarter of 1987, is scheduled for 1988.



Battle Creek, Saskatchewan

The Company acquired a 100 per cent interest in 34,560 acres in the Battle Creek area, expected to have good shallow gas potential. Two exploratory test wells were drilled which will lead to further evaluation and drilling in the first half of 1988. Adjacent to Mark's block of land, a farm-in was negotiated on two sections on which an earning well was drilled. Mark has a 60 per cent interest after payout in this test well. An additional farm-in agreement was reached on another 30,720 acres in which Mark will earn a 50 per cent interest before payout.

As well, Mark has successfully negotiated a farm-in on an additional 23,680 acres, which is being evaluated with seismic.

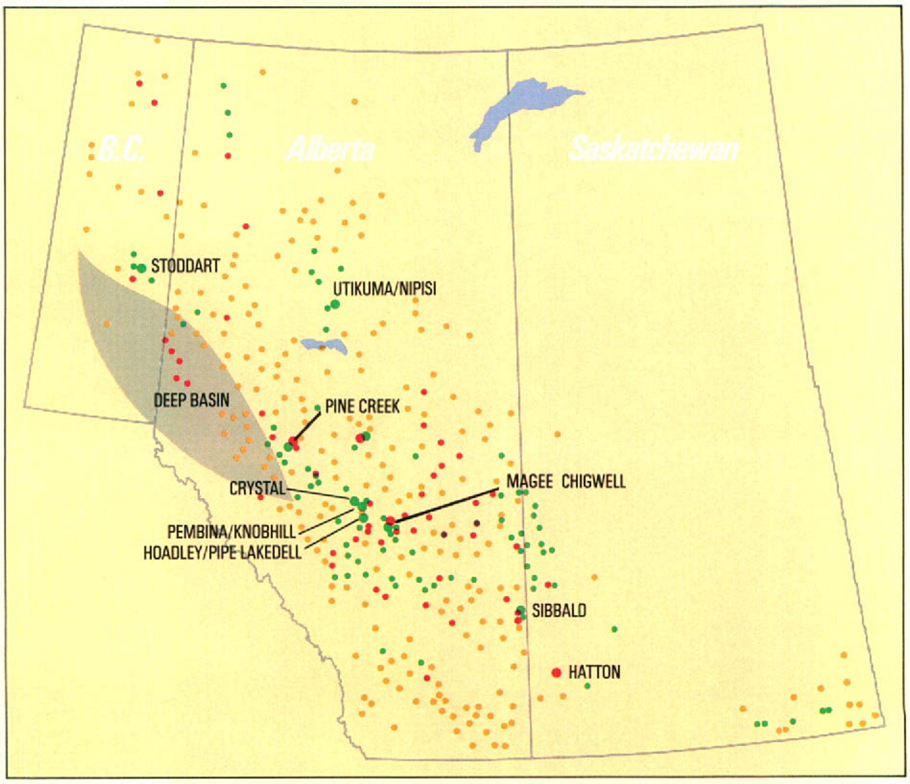
Oil and Gas Development Activity

Mark was very active developing its properties in 1987. Working interests in producing properties were successfully increased through the acquisition of Parasol Oil and Gas Ltd., whose largest oil reserves were already operated by the Company. Natural gas productive capacity was increased through installation of new facilities at Hoadley/Pipe Lakedell in Alberta, and Bigstick and Coleville in Saskatchewan.

During 1987, 116 gross (75.7 net) development wells were drilled. Of this total, 76 (64.4 net) wells were gas, 36 gross (8.9 net) were oil and only four gross (2.4 net) were dry and abandoned.

Drilling Activity

		1987		Proforma 1986		1986	
		Gross	Net	Gross	Net	Gross	Net
Development wells	– Oil	**36**	**8.9**	39	4.6	18	2.4
	– Gas	**76**	**64.4**	17	4.4	9	4.1
	– Dry	**4**	**2.4**	3	0.8	3	0.8
Total		**116**	**75.7**	59	9.8	30	7.3
Exploratory wells		**81**	**31.7**	74	20.3	36	13.3
Total Company wells		**197**	**107.4**	133	30.1	66	20.6
Success ratio %		**81.7**	**88.3**	70.7	63.1	66.7	61.2



WESTERN CANADA

Top 10 Producing Properties
- Oil Producing Properties
- Gas Producing Properties
- Undeveloped Properties

Producing Field Summaries

	1987	% of Total	Proforma 1986	% of Total	1986	% of Total
Oil and Natural Gas Liquids Production (Bbls/d)						
Alberta						
Elmworth/Wapiti	**237**	4%	326	6%	36	1%
Hoadley/Crystal	**475**	9%	332	6%	216	7%
Lindbergh	**161**	3%	136	3%	136	5%
Magee/Chigwell	**352**	6%	406	8%	72	2%
Pembina "P" Pool	**570**	10%	487	9%	487	17%
Pembina – Other	**246**	5%	236	5%	123	4%
Sibbald	**423**	8%	339	6%	339	12%
Utikuma/Nipisi	**458**	8%	389	7%	69	2%
Wainwright/Edgerton	**262**	5%	230	4%	32	1%
Other	**1,269**	23%	1,186	24%	709	25%
	4,453	81%	4,067	78%	2,219	76%
Saskatchewan						
Cosine/Court	**151**	3%	131	3%	131	4%
Manitou/Macklin	**191**	4%	190	4%	190	7%
Other	**184**	3%	234	4%	156	5%
	526	10%	555	11%	477	16%
British Columbia						
Stoddart	**284**	5%	163	3%	26	1%
Other	**13**	–	137	3%	18	1%
	297	5%	300	6%	44	2%
United States	**189**	4%	298	5%	175	6%
Total Daily Oil and NGLs Production	**5,465**	100%	5,220	100%	2,915	100%

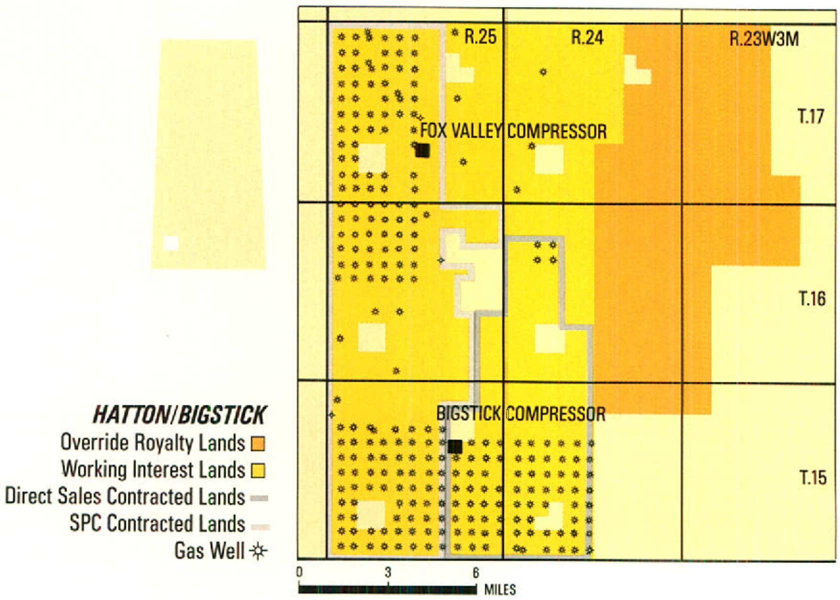
	1987	% of Total	Proforma 1986	% of Total	1986	% of Total
Natural Gas Production (Mcf/d)						
Alberta						
Caslan	**564**	2%	594	2%	594	4%
Drumheller	**477**	2%	400	1%	135	1%
E. Central Alberta	**989**	3%	543	2%	549	3%
Elmworth	**3,993**	13%	6,912	24%	627	4%
Eta Lake	**1,255**	4%	485	2%	485	3%
Goodfare	**403**	1%	585	2%	585	4%
Hoadley/Crystal	**2,484**	8%	2,360	8%	2,401	15%
Keg River	**754**	3%	588	2%	147	1%
Morningside/Magee	**1,904**	6%	658	2%	658	4%
Wapiti	**1,930**	7%	2,139	7%	194	1%
Other	**5,060**	18%	5,384	20%	2,945	17%
	19,813	67%	20,648	72%	9,320	57%
Saskatchewan						
Coleville	**2,266**	8%	–	–	–	–
Hatton	**4,421**	15%	4,744	17%	4,744	29%
Other	**164**	–	–	–	–	–
	6,851	23%	4,744	17%	4,744	29%
British Columbia						
Stoddart	**606**	2%	251	1%	121	1%
Yoyo	**661**	2%	376	1%	181	1%
Other	**829**	3%	354	1%	170	1%
	2,096	7%	981	3%	472	3%
United States	**912**	3%	2,316	8%	1,846	11%
Total Daily Natural Gas Production	**29,672**	100%	28,689	100%	16,382	100%

Production Property Review

Hatton/Bigstick, Saskatchewan

During 1987, Mark had interests in a 95 well project which delivers up to 8 million cubic feet per day of natural gas. Average production for the year amounted to 4.4 million cubic feet per day net to the Company. Late in 1987, an additional 65 gas wells were drilled, having a peak capacity of eight to ten million cubic feet per day. This program will be followed up by another 79 wells to be drilled early in 1988 with similar productive capabilities.

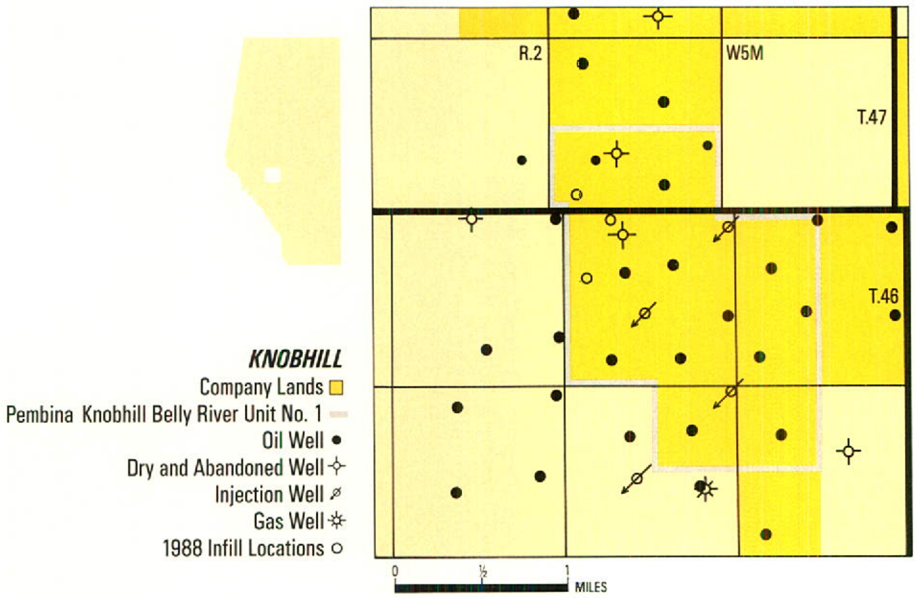
These projects will produce to two markets: Saskatchewan Power Corporation and the direct sales market. In 1987, 4.4 million cubic feet per day were delivered to Saskatchewan Power. In 1988, total deliveries are expected to average 10 million cubic feet per day. Volumes will further increase in 1989 when the development drilling program planned for 1988 commences production.



Knobhill, Alberta

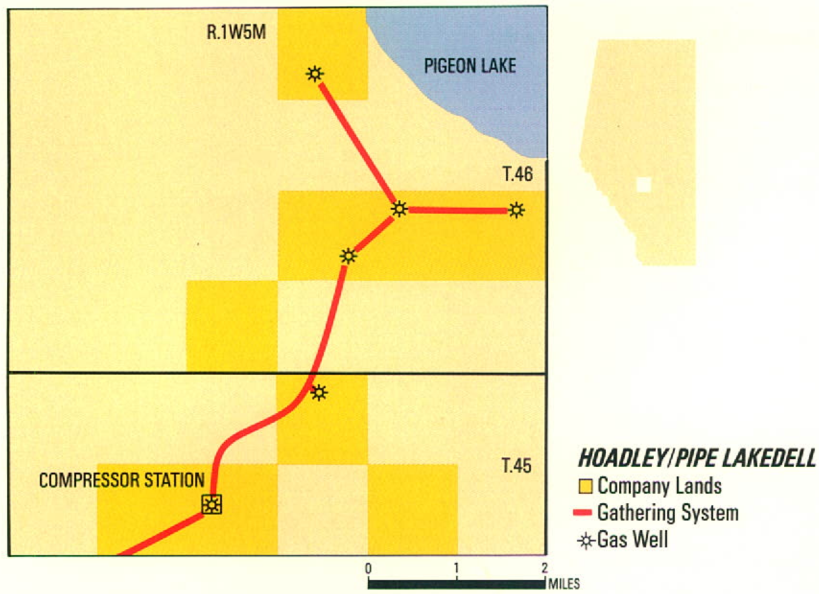
With the acquisition of Parasol Oil and Gas Ltd., Mark increased its working interest in the Pembina Knobhill Belly River Unit No. 1 to 44.97 from 25.7 per cent. The pool is currently producing 182 barrels of oil per day net to the Company. Three infill wells are scheduled to be drilled in early 1988. This drilling, coupled with recent success in stimulating existing producing wells, should increase production to 280 barrels of oil per day net to Mark.

Three wells were drilled in the area during the year to delineate a pool discovered in 1986 which appears to underly lands in which Mark has working interests varying from 35 to 100 per cent. Negotiations are under way to expand the Unit to include this new pool. Incremental production from the enlarged Unit is expected to be 250 barrels of oil per day net to Mark.



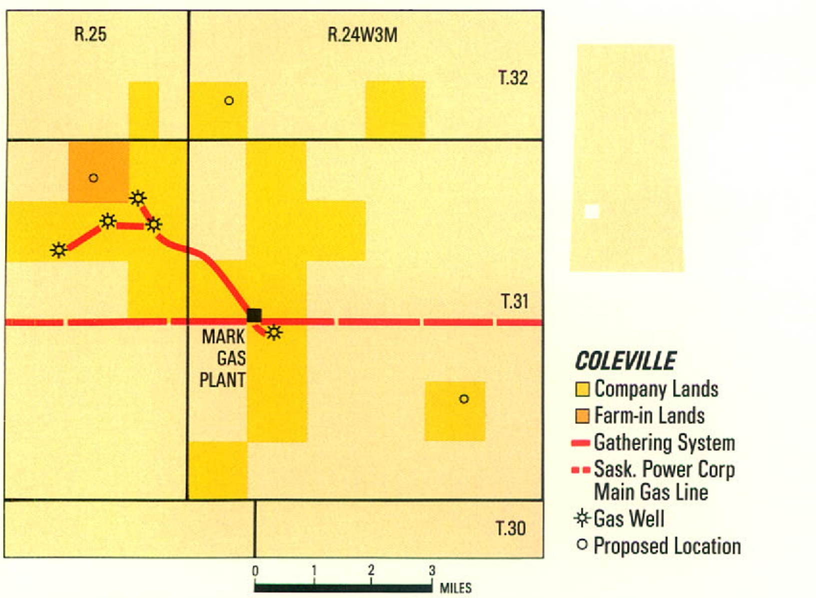
Hoadley, Alberta

Mark has a working interest in 10 producing wells, five of which produce to a long-term contract while the balance sell production to the direct sales markets. In 1987, Mark sold 2.5 million cubic feet per day of gas and 155 barrels per day of natural gas liquids from this area. Hoadley was further developed in 1987 with additional compression facilities constructed to handle 25 million cubic feet per day. Net production for 1988 is anticipated to average 7.5 million cubic feet per day of natural gas and 380 barrels per day of associated liquids.



Coleville, Saskatchewan

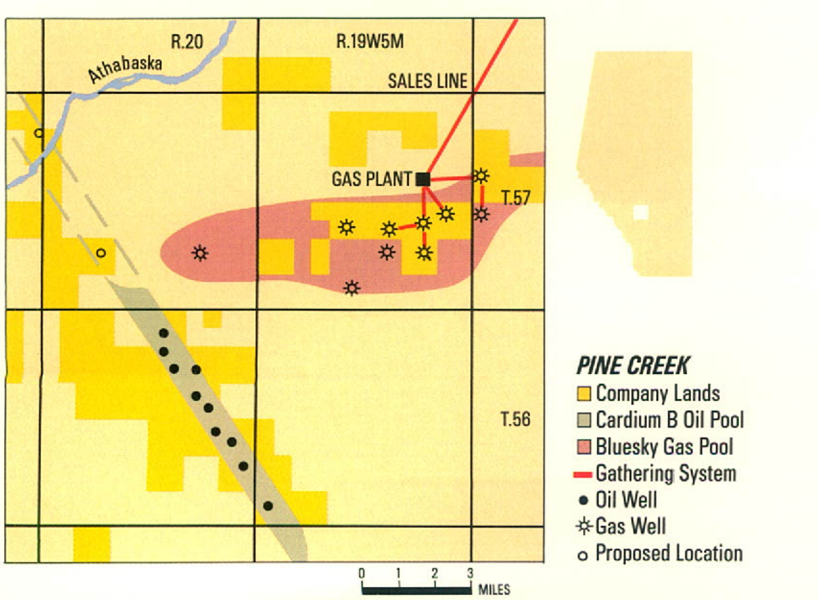
Mark drilled a successful development well in January 1987 to complete this five well gas project. Initial facilities were doubled to increase the deliverability to 10 million cubic feet per day of natural gas. There are 23 billion cubic feet of gas reserves associated with this project. At year end, peak volumes of 10 million cubic feet per day were delivered to the direct sales market. In 1988, production should average 7 million cubic feet per day, 3 million cubic feet per day net to Mark.



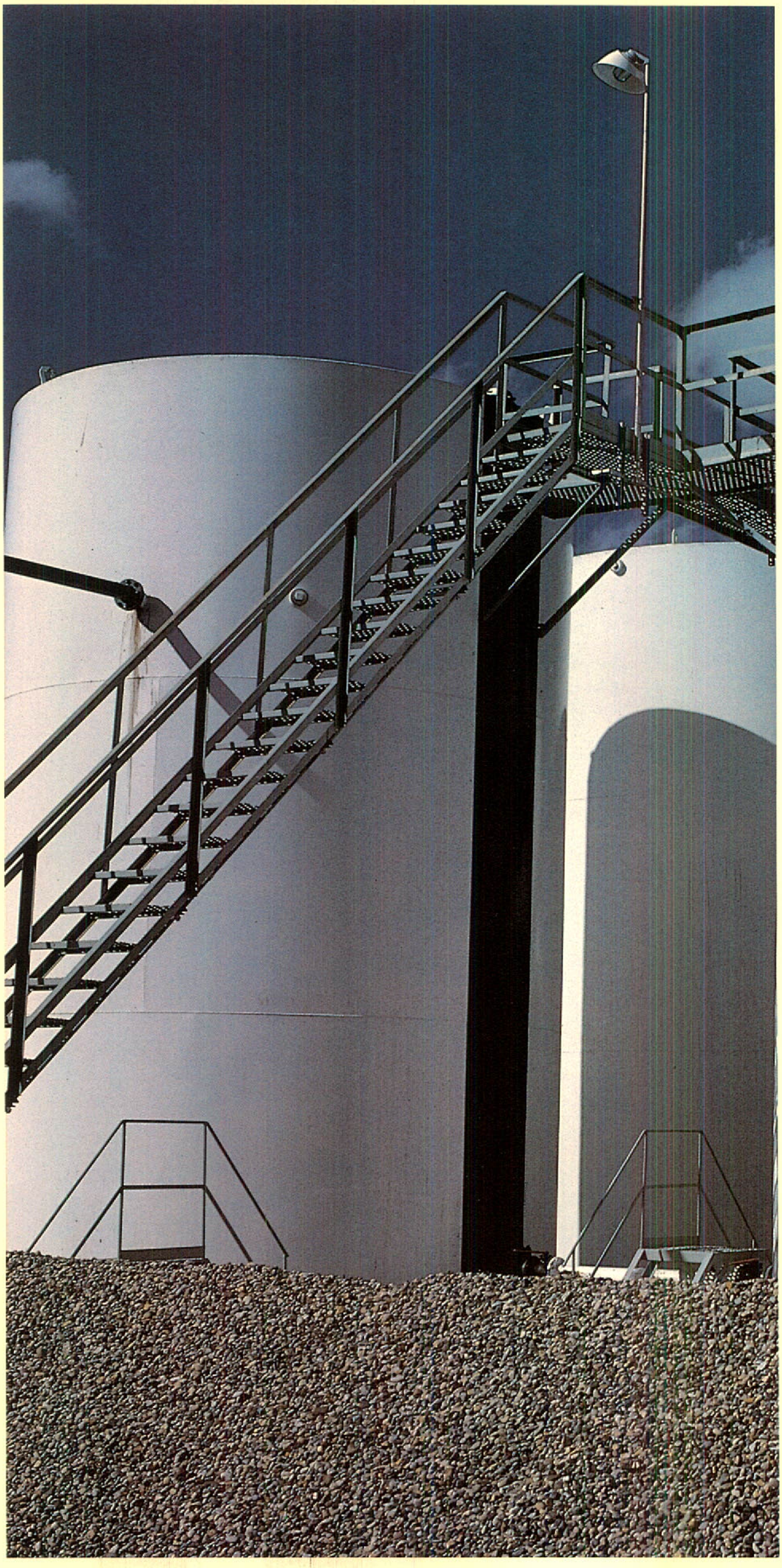
Pine Creek, Alberta

During 1987, the Company participated in the drilling of nine oil wells and two gas wells in this oil and gas prone area of Alberta. With the installation of gas conservation facilities in late 1988, net daily production should reach 100 barrels of oil and 300,000 cubic feet of gas by year end. Additional land acquisition and drilling is planned to further delineate the pool.

At the end of 1987, gathering and processing facilities were completed which tied in six gas wells. Net production in 1988 is expected to be 1.85 million cubic feet per day of natural gas and 70 barrels per day of natural gas liquids.



Management's Discussion and Analysis of Financial Results



The following discussion of the financial results of the Company for the year ended December 31, 1987 have been reported using 1986 proforma results for comparison purposes, except where specifically noted. These proforma results, published in the 1986 annual report and included in the five year summary of this annual report, form the basis for a more meaningful discussion of Mark's 1987 accomplishments. The 1986 proforma numbers represent what the results of the Company would have been for 1986 had the combination of Bluesky Oil & Gas Ltd. and Precambrian Shield Resources Limited occurred on January 1, 1986, adjusted for unusual and non-recurring items.

Overview

During 1987, the Company focused on consolidating its Canadian oil and gas operations and strengthening its financial position. In May 1987, the Company raised $50.3 million. This financing was used to reduce overall corporate debt while fixing and reducing the cost of borrowing associated with replacement debt. Exposure to the U.S. oil and gas environment has been significantly reduced through disposition of various properties throughout the year and reassignment of operator duties to other partners. Non-oil and gas assets, such as the Company's interest in a Northwest Territories real estate venture and a U.S. gold mineral interest, were sold during the year at a substantial gain for the shareholders.

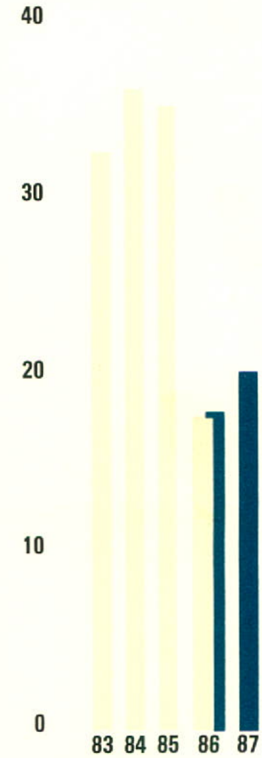
Operating Results

Mark Resources' oil and gas revenue for 1987 reached $47.5 million, up nine per cent from the proforma 1986 results of $43.4 million. The improved performance was a combination of increased production volumes and improved crude oil prices. The acquisition of Parasol Oil and Gas Ltd., a private Canadian oil and gas exploration company, resulted in the addition of 200 barrels of oil per day and 1 million cubic feet of natural gas per day to the annual average daily production of the Company. Average daily production rates of 5,465 barrels per day of crude oil were up five per cent despite restricted capacity in the interprovincial pipeline system and suppressed natural gas liquids production.

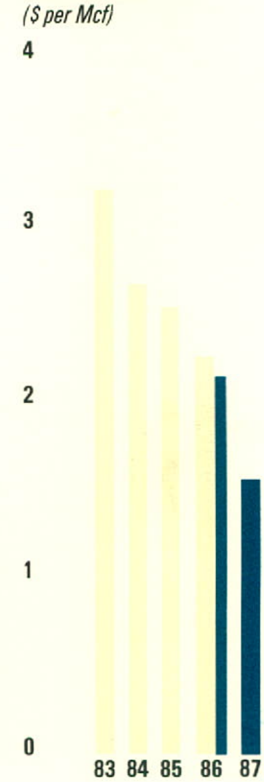
Production Revenue Analysis

	1987	Proforma 1986	1986	1985	1984	1983
			(thousands of dollars)			
Oil and NGL sales	**$40,755**	$ 34,505	$19,002	$30,077	$28,077	$14,014
Natural gas sales	**17,013**	22,618	13,514	9,834	7,424	5,442
Other	**1,284**	450	75	(541)	(500)	112
Gross production revenue	**59,052**	57,573	32,591	39,370	35,001	19,568
Crown royalties and other government payments	**8,035**	9,366	4,871	6,368	5,506	3,078
Other royalties	**3,512**	4,779	2,578	2,955	2,485	1,827
Net production revenue	**$47,505**	$ 43,428	$25,142	$30,047	$27,010	$14,663

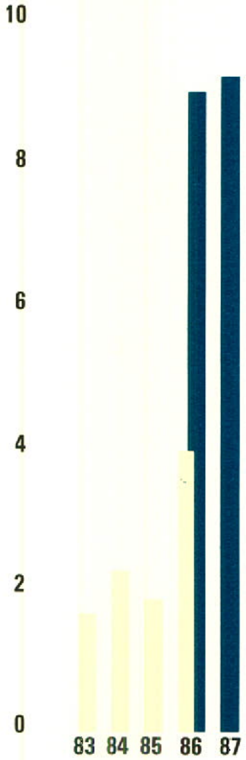
WEIGHTED AVERAGE PRICE CRUDE OIL
($ per barrel)



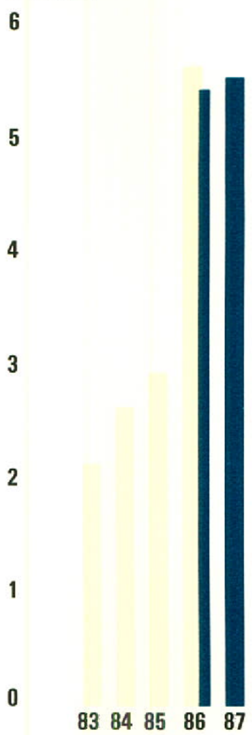
WEIGHTED AVERAGE PRICE NATURAL GAS
($ per Mcf)



INTEREST EXPENSE
($ Millions)



GENERAL AND ADMINISTRATIVE EXPENSE
($ Millions)



Natural gas production averaged 29.7 million cubic feet per day of natural gas, up three per cent in spite of warmer than average weather conditions which led to gas deliveries averaging about 40 per cent of contracted volumes. Average product prices received during 1987 were $20.43 per barrel for oil and $1.57 per thousand cubic feet of natural gas. The oil price recovery represented a 14 per cent improvement while the natural gas operations were negatively impacted by the 30 per cent decline in natural gas prices.

Due to changes in the Alberta Royalty Tax Credit, which resulted in a rate increase on April 1, 1986, from 50 per cent to 95 per cent of crown royalties paid, and the Company's increased Alberta oil and gas production, Mark's total credit entitlement increased by 48 per cent to $6.2 million from proforma 1986 results of $4.2 million.

Other revenues of $4.5 million were provided in part by the sale of Mark's interest in the Tonkin Springs gold mineral property for $1.2 million and foreign exchange gains on the repayment of U.S. dollar denominated bank debt. Additionally, other revenue was obtained through interest income and management fees earned from operating various oil and gas projects. The total gross revenue for 1987 was $58.2 million, up 16 per cent from the 1986 proforma results of $50.3 million.

Production costs were $13.2 million in 1987 or approximately 28 per cent of net production revenues. While production increases occurred, costs did not increase over proforma 1986 results due to cost control efforts and the Company's reduced exposure to U.S. operations. Per unit production costs for 1987 were $4.72 per barrel of oil and $0.37 per thousand cubic feet of gas. These statistics compare favourably with the unit costs of $5.70 per barrel for oil and $0.45 per thousand cubic feet for gas in 1986.

Depletion and depreciation charges corresponded to 35 per cent of net production revenue, or $16.8 million. The 10 per cent increase in this expense over 1986 is directly related to higher production volumes.

Corporate Expenses

Mark's long-term debt has increased by $15.5 million to $105.7 million. Despite this increase, interest costs were $9.3 million in 1987, not substantially different from proforma 1986 interest charges of $9.1 million due to lower interest rates on the fixed portion of long-term debt and lower overall rates of interest on the remaining floating rate debt. Interest charges remain at three times coverage by cash flow.

Unit Price Summary

	Gross Revenue	Royalties	Net Revenue	Operating Costs	Operating Income
Oil and Natural Gas Liquids (per Bbl)					
1987	$20.43	$4.18	$16.25	$4.72	$11.53
1986	$17.86	$3.92	$13.94	$5.70	$ 8.24
1985	$35.37	$8.66	$26.71	$6.42	$20.29
Natural Gas (per Mcf)					
1987	$ 1.57	$0.30	$ 1.27	$0.37	$ 0.90
1986	$ 2.26	$0.50	$ 1.76	$0.45	$ 1.31
1985	$ 2.55	$0.54	$ 2.01	$0.28	$ 1.73

General and administrative expenses of $5.6 million were kept to a two per cent increase over proforma 1986 amounts even though 13 additional employees were added to the Company. Mark has a staff of 104 employees, 21 of whom are field personnel.

Cash Flow and Net Income

The combination of increased production and improved oil prices resulted in cash flow of $29.7 million, up by 68 per cent from 1986 proforma cash flow of $17.7 million. Per share cash flow increased from proforma $0.99 per share in 1986 to $1.49 in 1987. Net income before unusual and extraordinary items increased from a proforma 1986 loss of $1.2 million, or $0.07 per share, to a profit of $8.1 million, or $0.40 per share in 1987. Net income was positively affected by an extraordinary gain of $2.2 million from the sale of the Company's interest in a real estate venture.

Capital Expenditures

During 1987, Mark invested $32.3 million of net capital expenditures, compared with $30.1 million for proforma 1986. Incentive grants of $5.0 million were earned, principally under the federal government's Canadian Exploration and Development Incentive Program. Also included as a reduction of total capital expenditures was the receipt of $8.0 million arising from the disposition of a 50 per cent working interest in the Company's Bigstick prospect in southwestern Saskatchewan. The funds were used to develop this natural gas prospect. Of the total $45.3 million of gross capital expenditures, $22.6 million was used for land acquisition and exploration activities. The remaining half of expenditures were directed to reserve development activities including the installation of facilities.

Capital Resources

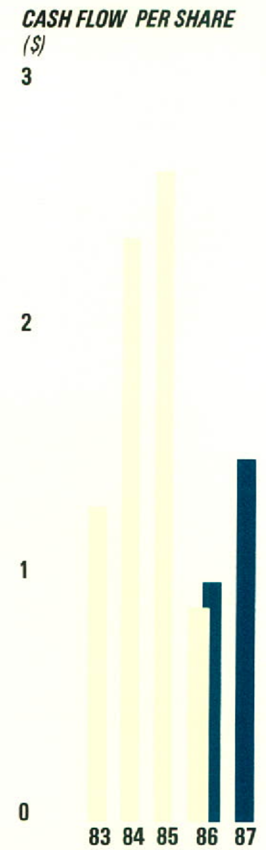
In May 1987, $25 million was raised by the issue of 7% convertible debentures and another $25.3 million was raised through a common share issue. These funds were used to reduce bank debt and to replace floating rate bank loans with lower cost fixed rate debt.

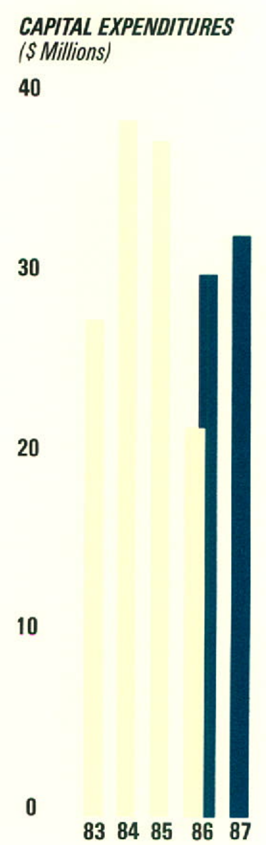
A flow-through share issue was privately placed by both Mark Resources and its subsidiary, Precambrian Shield Resources. The combined value was $11.1 million of which $4.0 million of shares had been committed by Mark Resources for issue by February 29, 1988. Proceeds from these issues were directed to exploration activity to be carried out in late 1987 and early 1988.

A carved-out production interest was repurchased in early 1987 for $11.7 million because of fiscal and economic changes. On April 1, 1987, $25 million of Precambrian Shield Resources preferred shares were redeemed at par. As well, the purchase of Parasol Oil and Gas Ltd., a private oil and gas exploration company, was completed for $14.3 million. These transactions were carried out during the year using bank lines of credit.

During the second quarter of 1987, 303,263 Series A preferred shares were converted to common shares according to the terms which stated that conversion would occur when the Company's common shares traded at or above an average value of $12.00 for over 30 consecutive trading days.

At year end 1987, 20,667,066 common shares were outstanding. Mark's shares trade on The Toronto Stock Exchange under the symbol MKC.





Mark Resources Inc.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes. In the preparation of financial statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements.

The external auditors conduct an independent examination of corporate and accounting records in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This committee meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

Arthur C. Eastly
Senior Vice-President, Operations

James K. Wilson
Treasurer

Auditors' Report

To the Shareholders of Mark Resources Inc.

We have examined the consolidated balance sheet of Mark Resources Inc. as at December 31, 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 5, 1988
Calgary, Alberta

Price Waterhouse
Chartered Accountants

Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of Mark Resources Inc. and its subsidiaries.

Foreign Currency Translation

Accounts of foreign operations are translated into Canadian dollars using year-end rates of exchange for monetary assets and liabilities, historical rates of exchange for other assets and liabilities and average rates of exchange prevailing during the year for revenues and expenses, except for depletion and depreciation, which are translated at the rates in effect when the corresponding assets were acquired. Gains or losses arising on foreign exchange translation are included in earnings.

Joint Operations

Substantially all oil and gas exploration and development activities are conducted jointly with others. Accordingly, the accounts reflect the Company's proportionate interest in these activities.

Property, Plant and Equipment

Oil and Gas

The Company follows the full cost method of accounting as outlined in the guideline issued by The Canadian Institute of Chartered Accountants, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs, net of government incentives and grants earned. These amounts are accumulated in separate cost centres for each country where the Company is active.

Costs associated with the acquisition and evaluation of unproved properties are excluded from amounts subject to depletion until such time as the related properties are proved or become impaired.

Depletion and depreciation are provided for those costs accumulated in producing cost centres or related to impaired properties using the unit of production method based on the Company's share of gross proven reserves of oil and gas. For purposes of this calculation, reserves and production of gas and associated liquids are converted into equivalent barrels of oil based on the relative energy content.

Gains or losses on the disposition of oil and gas properties are only recognized in the statement of earnings when the depletion and depreciation rate would be changed by a factor of 20% or more.

The Company's oil and gas properties are subject to a ceiling test under which the carrying value is limited to the future net revenue from production of estimated proven oil and gas reserves valued at year-end prices plus the unimpaired costs of non-producing properties less future general administration costs, financing costs and income taxes.

Other Equipment

All other equipment is carried at cost. Depreciation is provided over the estimated useful lives of the assets at annual rates varying from 10% to 30%.

Deferred Revenue

Payments received for undelivered gas are deferred and recognized as revenue when deliveries are made.

Mark Resources Inc.

Consolidated Balance Sheet

	As at December 31, 1987	1986
	(Thousands of dollars)	
Assets		
Current Assets		
Cash and short-term deposits	$ 1,402	$ –
Accounts receivable	15,840	11,946
Refundable income taxes and royalty tax credits	1,410	2,590
Notes receivable (Note 8)	–	4,494
Other	1,225	1,860
	19,877	20,890
Property, Plant and Equipment (Note 1)	387,087	343,361
Other Assets	756	807
	$407,720	$365,058
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank loans	$ –	$ 1,031
Accounts payable	16,478	10,363
Current portion of deferred revenue	814	589
Current portion of long-term debt	900	900
	18,192	12,883
Long-term Debt		
Bank loans (Note 2)	69,611	78,425
Convertible debentures (Note 3)	36,066	11,781
	105,677	90,206
Deferred Revenue (Note 6)	5,627	17,492
Deferred Income Taxes	52,901	34,552
Minority Interest (Note 11)	15,971	37,370
Shareholders' Equity (Note 4)		
Share capital – preferred	–	1,516
– common	199,265	208,091
Retained earnings (deficit)	10,087	(37,052)
	209,352	172,555
	$407,720	$365,058

Approved by the Board

B. W. Harrison
Director

V. L. Horte
Director

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

Mark Resources Inc.

Consolidated Statement of Earnings

	For the Years Ended December 31, 1987	1986	1985
		(Thousands of dollars)	
Revenues			
Oil and gas production, net of royalties	$ 47,505	$ 25,142	$ 30,047
Alberta royalty tax credit	6,184	2,079	1,890
Interest and other income	2,144	767	1,388
Management fees	1,208	1,247	1,240
Gain on sale of mineral investment	1,178	–	–
	58,219	29,235	34,565
Expenses			
Production	13,183	8,308	6,487
Administration	5,573	5,707	3,077
Interest – short-term	214	319	650
– long-term	9,105	3,729	1,254
Depletion and depreciation	16,845	9,165	6,798
Other	201	2,449	130
Minority interest	388	104	–
	45,509	29,781	18,396
Earnings (Loss) Before Taxes, Write-down and Extraordinary Gain	12,710	(546)	16,169
Income and Other Taxes			
Deferred income taxes (Note 5)	4,631	1,245	6,873
Petroleum and gas revenue taxes	–	220	1,977
	4,631	1,465	8,850
Earnings (Loss) Before Write-down and Extraordinary Gain	8,079	(2,011)	7,319
Write-down of Property, Plant and Equipment	–	(51,187)	–
Extraordinary Gain on Sale of Investment (net of deferred income taxes of $351)	2,158	–	–
Net Earnings (Loss)	10,237	(53,198)	7,319
Dividends on Preferred Shares	150	1,729	2,840
Net Earnings (Loss) Attributable to Common Shares	$ 10,087	$ (54,927)	$ 4,479
Weighted Average Number of Common Shares Outstanding During the Year	19,960,860	10,066,934	8,491,183
Net Earnings (Loss) Per Common Share			
Before extraordinary gain	$ 0.40	$ (5.46)	$ 0.53
After extraordinary gain	$ 0.51	$ (5.46)	$ 0.53

Mark Resources Inc.

Consolidated Statement of Retained Earnings

	For the Years Ended December 31, 1987	1986	1985
		(Thousands of dollars)	
Balance at Beginning of Year	$ (37,052)	$ 13,754	$ 9,275
Reduction of Deficit Against Stated Share Capital (Note 4)	37,052	–	–
Allocated to Minority Interest on Date of Acquisition	–	4,121	–
Net Earnings (Loss)	10,237	(53,198)	7,319
	10,237	(35,323)	16,594
Dividends on Preferred Shares	150	1,729	2,840
Balance at End of Year	$ 10,087	$ (37,052)	$ 13,754

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

Mark Resources Inc.

Consolidated Statement of Changes in Financial Position

	For the Years Ended December 31, 1987	1986	1985
	(Thousands of dollars)		
Operating Activities			
Earnings (loss) before write-down and extraordinary gain	**$ 8,079**	$ (2,011)	$ 7,319
Add (deduct) non-cash items			
Depletion and depreciation	**16,845**	9,165	6,798
Deferred taxes	**4,631**	1,445	8,478
Other	**103**	229	(1)
Cash flow from operations	**29,658**	8,828	22,594
Net change in operating account balances	**(796)**	1,370	2,412
	28,862	10,198	25,006
Financing Activities			
Share capital — preferred	**—**	—	(20,000)
— common (Note 4)	**26,330**	72,704	737
Long-term debt — bank loans	**(8,814)**	15,782	8,000
— convertible debentures	**24,285**	(563)	(1,196)
Deferred revenue	**(12,146)**	4,872	6,678
Dividends on preferred shares	**(150)**	(1,729)	(2,840)
Minority interest — preferred (Note 11)	**(25,000)**	—	—
— common (Note 11)	**3,377**	—	—
Other	**(596)**	—	(97)
Net change in financing account balances	**4,582**	(6,291)	3,944
	11,868	84,775	(4,774)
Cash Resources Provided from Operating and Financing Activities	**40,730**	94,973	20,232
Investing Activities			
Property, plant and equipment	**45,270**	25,294	42,137
Government incentive grants and credits	**(5,026)**	(3,667)	(4,663)
Property development financing (Note 10)	**(7,968)**	—	—
Net capital expenditures	**32,276**	21,627	37,474
Acquisition of subsidiary (Note 9)	**14,307**	72,639	—
Proceeds on sale of investment	**(3,333)**	—	—
Other	**16**	41	28
Net change in investing account balances	**(4,969)**	867	526
	38,297	95,174	38,028
Increase (Decrease) in Cash Resources	**2,433**	(201)	(17,796)
Cash Resources at Beginning of Period	**(1,031)**	(830)	16,966
Cash Resources at End of Period	**$ 1,402**	$ (1,031)	$ (830)
Cash Resources are Comprised of:			
Cash and short-term deposits	**$ 1,402**	$ —	$ —
Short-term bank loans	**—**	(1,031)	(830)
	$ 1,402	$ (1,031)	$ (830)

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except share and per share amounts)

1. Property, Plant and Equipment

	1987			1986
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas	$424,080	$38,594	$385,486	$342,329
Other	2,133	532	1,601	1,032
	$426,213	$39,126	$387,087	$343,361

Costs associated with unproved properties excluded from costs subject to depletion and depreciation were $30,788,000 (1986 - $28,483,000). Administration costs capitalized during the year amounted to $3,084,000 (1986 - $2,400,000).

2. Long-term Bank Loans

As at December 31, 1987, $69,611,000 (1986 - $78,425,000) of long-term bank loans were outstanding as follows:

Nature of Bank Loan	Interest Rate	1987	1986
Canadian dollar advances	Bank prime	$14,900	$43,827
Canadian dollar bankers' acceptances	B/A rate plus bank's stamping fee	34,711	2,583
Interest rate currency swaps	Effective rate of		
	10.88%	10,000	10,000
	10.41%	10,000	10,000
United States dollar advances	Bank base rate	–	12,015
United States dollar LIBOR advances	LIBOR plus ½ of 1%	–	–
		$69,611	$78,425

The interest rate currency swaps are based on U.S. dollar floating rate LIBOR-based loans of $7,326,000 and $7,156,000 maturing June 27, 1990 and December 30, 1992, respectively.

Bank lines of credit amounting to $128,000,000 are available for general corporate borrowing purposes. The Company's unused lines of credit as at December 31, 1987 were $58,389,000 (1986 - $30,544,000). These credit facilities may revolve until December 31, 1988. All amounts outstanding at that time, to a maximum of $100,000,000, will be converted into a term facility which shall be repaid in five equal annual principal installments with the first payment due on June 30, 1989. Any remaining balance of loans then outstanding, to a maximum of $20,000,000, shall be converted into a revolving facility.

Floating charge debentures on the assets of the Company have been provided as collateral for the bank lines of credit.

3. Convertible Debentures

	1987	1986
7% Convertible Subordinated Unsecured Debentures	$25,000	$ –
9% Convertible Subordinated Unsecured Debentures	11,966	12,681
	36,966	12,681
Less current portion	900	900
Long-term portion	$36,066	$11,781

The 7% debentures have a maturity date of April 15, 2002 and, at the option of the holder until April 15, 1997, are convertible into common shares of the Company at $13.50 per share. The debentures are redeemable between April 15, 1990 and April 16, 1992 at par if the common shares have traded on The Toronto Stock Exchange at a price which is not less than 125% of the conversion price for a period of 20 consecutive trading days. After April 15, 1992 the debentures are redeemable at par.

The 9% debentures have a maturity date of January 22, 1991 and, at the option of the holder, are convertible at any time into common shares of the Company's subsidiary, Precambrian Shield Resources Limited ("Precambrian") at $7.82 per share. The redemption price is 101% to January 22, 1989 and thereafter at par. Annually, the Company must offer to purchase for cancellation a minimum principal amount of $900,000. In the year ended December 31, 1987, $715,000 (1986 - $563,000) of the debentures were purchased under this annual requirement.

4. Share Capital

(a) Authorized Share Capital

The Company's authorized share capital consists of:

– 100,000,000 common shares without nominal or par value,

– 2,000,000 preferred shares, issuable in series.

(b) Preferred Shares

As of April 16, 1987, the 303,263 Series "A" Preferred Shares, issued in August 1986, were converted into common shares of the Company on the basis of .6667 common shares for each preferred share.

(c) Common Shares

	December 31, 1987		December 31, 1986	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	17,938,687	$208,091	25,476,792	$152,120
Employee stock options exercised	225,316	1,785	40,800	65
Series "A" Preferred Shares converted	202,175	1,516	–	–
Series "A" warrants exercised	2,300,000	24,920	–	–
Warrants exercised	563	5	–	–
Reduction of deficit	–	(37,052)	–	–
Consolidation of outstanding shares on a 1 for 3 basis and related fractional adjustments	325	–	(17,011,424)	–
Acquisition of Precambrian	–	–	9,432,519	72,639
Minority interest in Precambrian at date of acquisition	–	–	–	(16,733)
Balance at end of year	20,667,066	$199,265	17,938,687	$208,091

On March 17, 1987, the Company issued 2,300,000 Series "A" warrants at a price of $11.00 per warrant before underwriters' fees and related issuance costs. Each Series "A" Warrant was exchanged for one common share of the Company by May 15, 1987.

At the annual shareholders' meeting, held May 14, 1987, a special shareholders' resolution was passed to eliminate the December 31, 1986 deficit balance of $37,052,000 against the common share capital of the Company.

As at December 31, 1987, the Company's wholly-owned subsidiary, Bluesky Oil & Gas Inc., owned 1,058,267 common shares of the Company which represents 4.87% of the common shares issued. Shares held by Bluesky Oil & Gas Inc. have been excluded from the total number of shares outstanding.

On November 2, 1987, the Company entered into an agreement to issue $4,000,000 of flow-through common shares at a price of $14.50 per share. Under the terms of the agreement, the Company will renounce to the investor an equivalent amount of Canadian Exploration Expense, as defined in the Income Tax Act of Canada, for expenditures incurred to February 29, 1988.

(d) ***Employee Stock Option Plan***

Options for common shares	
Outstanding December 31, 1986	799,681
Options granted during the year	165,000
Options exercised during the year	(225,316)
Options cancelled during the year	(270,000)
Outstanding December 31, 1987	469,365
Balance of common shares reserved under Company stock option plan	405,319
Total common shares reserved under Company stock option plan	874,684

Outstanding common share options are exercisable at prices ranging from $6.45 per share to $8.75 per share and expire within one to five years.

(e) ***Warrants***

The warrants, issued on December 2, 1986, are exercisable on the basis of three warrants for one common share at a price of $9.41 per common share and expire on November 14, 1988. During 1987, a total of 1,692 warrants were exercised for common shares leaving a balance of 3,039,763 warrants issued and outstanding and 1,609,285 held for the benefit of the 9% convertible debenture holders.

5. Deferred Income Taxes

The provision for deferred income taxes in the consolidated statements of earnings has been determined as follows:

	1987	1986	1985
Earnings (loss) before taxes, write-down and extraordinary gain	**$12,710**	$ (546)	$16,169
Computed income tax expense at the Canadian statutory rate of 45.5% (1986 and 1985 - 46%)	**$ 5,783**	$ (251)	$ 7,438
Increase (decrease) in income taxes resulting from:			
Non-deductible crown royalties and other payments	**3,786**	1,876	2,218
Alberta royalty tax credit	**(2,814)**	(957)	(870)
Federal resource allowance	**(4,077)**	(1,615)	(2,463)
Non-deductible depletion arising on excess of book value over tax values assigned to acquired properties	**2,825**	1,755	1,479
Amortization of deferred revenue	**–**	–	(1,632)
Non-taxable income	**(826)**	–	–
Corporate surtax and provincial income taxes in excess of federal tax abatement	**500**	–	411
Other	**(546)**	437	292
Provision for deferred income taxes	**$ 4,631**	$ 1,245	$ 6,873

6. Deferred Revenue

In 1985, the Company entered into an agreement to sell a carved-out production interest to another party. This sale was accounted for as deferred revenue. Earnings were recognized and the deferred revenue account was reduced as production from the carved-out interest was sold. As the party, to which this interest was sold, was put into receivership and due to changed economic and fiscal factors, the Company repurchased the carved-out production interest for $11,700,000 in early 1987.

7. Segmented Information

The Company's operations are considered to be in the oil and gas, coal and other mineral resource industries. All operating income is presently generated from oil and gas activities in Canada and the United States. The 1987 revenues include a gain of $1,178,000 recorded on the sale of a U.S. mineral investment.

	December 31, 1987		
	Canada	U.S.	Total
Revenues	$ 54,304	$ 3,915	$ 58,219
Earnings from operations	$ 27,575	$ 2,368	$ 29,943
Depletion and depreciation			
Oil and gas	$ 16,193	$ –	$ 16,193
Other	648	4	652
	$ 16,841	$ 4	$ 16,845
Net expenditures for property, plant and equipment			
Oil and gas	$ 30,226	$ 791	$ 31,017
Other	1,122	137	1,259
	$ 31,348	$ 928	$ 32,276
Identifiable assets			
Oil and gas	$403,852	$ 1,624	$405,476
Other	1,454	790	2,244
	$405,306	$ 2,414	$407,720

	December 31, 1986		
	Canada	U.S.	Total
Revenues	$ 26,139	$ 3,096	$ 29,235
Earnings from operations	$ 7,813	$ 910	$ 8,723
Depletion and depreciation			
Oil and gas	$ 7,829	$ 610	$ 8,439
Other	665	61	726
	$ 8,494	$ 671	$ 9,165
Net expenditures for property, plant and equipment			
Oil and gas	$ 17,034	$ 4,348	$ 21,382
Other	245	–	245
	$ 17,279	$ 4,348	$ 21,627
Identifiable assets			
Oil and gas	$354,385	$ 1,266	$355,651
Other	7,967	1,440	9,407
	$362,352	$ 2,706	$365,058

	December 31, 1985		
	Canada	U.S.	Total
Revenues	$ 30,545	$ 4,020	$ 34,565
Earnings from operations	$ 21,040	$ 1,927	$ 22,967
Depletion and depreciation			
Oil and gas	$ 5,723	$ 663	$ 6,386
Other	340	72	412
	$ 6,063	$ 735	$ 6,798
Net expenditures for property, plant and equipment			
Oil and gas	$ 24,598	$12,586	$ 37,184
Coal and other minerals	47	–	47
Other	195	48	243
	$ 24,840	$12,634	$ 37,474
Identifiable assets			
Oil and gas	$209,470	$40,375	$249,845
Coal and other minerals	5,995	–	5,995
Other	1,162	2,377	3,539
	$216,627	$42,752	$259,379

Earnings from operations are calculated as earnings (loss) before taxes, write-down and extraordinary gain before deducting depletion and depreciation and minority interest.

8. Related Party Transactions

During 1987, sales contracts were entered into with an affiliated company. Gas sales under these contracts totalled $3,501,000 in 1987 (1986 - $Nil) and as at year end $607,000 was included in accounts receivable pursuant to these sales. Such sales were considered to be in accordance with normal industry terms.

As at December 31, 1986, interest free notes receivable from employees of the Company totalled $1,839,000. These notes receivable were repaid in 1987.

9. Acquisition of Parasol Oil and Gas Ltd.

Effective July 1, 1987 the Company acquired all of the outstanding common shares of Parasol Oil and Gas Ltd., a private Alberta company, for a total consideration of $17,102,000. The total consideration paid, in excess of the carrying values recorded in the accounts of Parasol, has been allocated to property, plant and equipment. The net assets acquired are summarized as follows:

Assets	
Current assets	$ 5,336
Property, plant and equipment	21,439
	26,775
Liabilities	
Current liabilities	2,541
Deferred revenues	281
Deferred income taxes	6,851
	9,673
Net assets acquired	17,102
Working capital acquired	2,795
Net assets acquired excluding working capital	$14,307

10. Property Development Financing

The Company has entered into an agreement to sell a 50% interest in a specific natural gas property at a price not to exceed 100% of the actual costs incurred by the Company to develop the property prior to January 1, 1991 or $20,000,000. On January 1, 1990, the purchase price may be adjusted to achieve an agreed rate of return to the purchaser. The purchaser has the option to return its interest in the property to the Company prior to March 1, 1988. In this event, the purchaser will be obligated to provide limited recourse financing to a maximum extent of $17,000,000 at an interest rate of bank prime plus 1%. As at December 31, 1987, the receipt of $7,968,000 for incurred development costs has been recorded in the accounts of the Company as a reduction of property, plant and equipment costs.

11. Minority Interest

Minority interest at beginning of year	$37,370
Redemption of preferred share capital	(25,000)
Issue of Precambrian flow-through common shares	3,439
Minority interest share of net income attributed to common shareholders	162
Minority interest at end of year	$15,971

All of the outstanding Series "C" Preferred Shares of Precambrian were redeemed on April 1, 1987 at par value for a total of $25,000,000.

On December 31, 1987, Precambrian issued 813,954 flow-through common shares at a price of $4.30 per share before issuance costs. Accordingly, the minority interest related to common shareholders of Precambrian has increased from 11.0% to 13.5%.

12. Comparative Amounts

On November 6, 1986, the Company acquired 89% of the outstanding common shares of Precambrian. As a result of the exchange of shares, the former Precambrian shareholders held 52.6% of the outstanding common shares of the Company. Reverse take-over accounting principles were applied to record this acquisition using the purchase method of accounting. During 1987, the allocation of the purchase price with respect to the net assets of Mark Resources Inc. was adjusted by increasing both property, plant and equipment and deferred income taxes by $6,900,000. The comparative figures for 1986 include the consolidated accounts of Precambrian for the year ended December 31, 1986 together with the results of Mark (excluding Precambrian) for the two months ended December 31, 1986. The comparative figures for the years prior to 1986 are those of Precambrian.

Prior years' comparative amounts have been reclassified to conform to the current year's presentation.

The prior years' financial statements have been audited and reported on by another firm of chartered accountants.

Industry Conditions

Government Regulations

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government relating to land tenure, royalties, production rates, pricing, environmental protection, exports, taxation and other matters. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. All current legislation is a matter of public record and the Company is unable to predict additional legislation or amendments which may be enacted.

Pricing and Marketing — Crude Oil

Producers of oil negotiate sales contracts directly with crude oil purchasers, with the result that the market determines the price of oil. Such price depends in part on crude quality, prices of competing crudes, distance to market and the value of refined products. Oil exporters are also entitled to enter into export contracts without obtaining the prior approval of the National Energy Board ("NEB") provided that the terms of such contracts do not exceed one year in the case of light crude and two years in the case of heavy crude. The NEB continues to monitor these exports and reports to the Minister of Energy, Mines and Resources on a monthly basis.

On March 2, 1987, the Energy Resources Conservation Board ("ERCB") announced a modification to the current prorationing system of production allocation applicable to light to medium crude oil effective June 1, 1987. The modified system is designed to improve the flexibility of accessing and marketing oil produced in Alberta while providing equity among producers. Under the modified system, the ERCB calculates an initial production level for each producer equal to its market share under the previous prorationing plan based on the assumption that the total market is equal to 95,000 cubic metres per day. The ERCB advises each producer of its initial production level approximately six weeks prior to the month of production and thereafter producers will be entitled to enter into negotiations for the sale of crude oil. The amount of crude oil which each producer may contract to sell will not be limited by its initial production level. Producers who are unable to obtain contracts to sell their initial production levels have been requested to notify the ERCB, which has agreed to review any such cases with an industry monitoring committee. If it is found that the new system is undermining the ability of producers to sell their initial production level into a primary market, the ERCB will reinstate the existing prorationing system, without the supplementary sales program.

Pricing and Marketing — Natural Gas

The price of natural gas in interprovincial trade is determined by negotiation between buyers and sellers. The price of natural gas exported from Canada is regulated by the NEB and the government of Canada. Pursuant to the Natural Gas Markets and Prices Agreement, the government of Canada has agreed to make significant modifications to its previous policy with respect to the price of natural gas exports. Under the new policy, the Toronto wholesale price floor for all exports has been replaced with a regional reference price criterion and exporters are free to negotiate prices with purchasers, provided that the export price is not less than the price charged to Canadians for similar types of service in the area or zone adjacent to the export point. Export contracts must also meet certain other criteria prescribed by the Government of Canada. These criteria include the following: (a) the price of exported gas must recover its appropriate share of costs incurred; (b) export contracts must contain provisions which permit adjustments to reflect changing market conditions over the term of the contract; (c) exporters must demonstrate that export arrangements provide reasonable assurance that volumes contracted will be taken; and (d) exporters must demonstrate that producers supplying gas for an export project endorse the terms of the export arrangement and any subsequent revisions.

Federal Government Incentives

Qualifying corporations and individuals can earn investment tax credits of 25 per cent of their eligible exploration expenses in excess of $5 million per well for wells drilled anywhere in Canada after November 30, 1985 and before January 1, 1991. Companies may receive as an income tax refund up to 40 per cent of that portion of the tax credit earned during the year that has not been used to reduce the company's income tax. In a Notice of Ways and Means Motion on Tax Reform introduced on December 16, 1987, the Minister of Finance proposed that the amount of investment tax credits claimed in a year be limited to 3/4 of a taxpayer's federal income tax and that no portion of tax credits earned in tax years beginning after 1988 on Canadian exploration expenses be refundable.

On March 25, 1987, the Government of Canada announced the Canadian Exploration and Development Incentive Program, which will make available $350 million per year until December 31, 1989, to stimulate oil and gas exploration and development activity in Canada. Under the program, cash payments are made to qualified applicants to a maximum of 33-1/3 per cent of eligible expenses incurred by those applicants on or after April 1, 1987. After October 1, 1988, the rate will be decreased to 16-2/3 per cent. A qualified applicant's eligible expenses are limited to an aggregate of $10 million per year. Subject to certain limitations, eligible expenses are those expenses which qualify as a Canadian exploration expense or Canadian development expense, as such terms are defined in the federal Income Tax Act.

Provincial Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties are calculated as a per cent of the value of the gross production, and depend in part on well productivity, geographical location and field discovery date. Royalties on natural gas sold for less than 80 per cent of the government established average market price are payable as though 80 per cent of the average market price had been received.

On June 24, 1985, the government of Alberta announced royalty rate reductions, holidays and enhanced royalty tax credits for Crown lands in the Province of Alberta. The credits and holidays were established for the purpose of assisting small producers and encouraging exploration for new oil pools and deeper and more costly gas pools.

Commencing on August 1, 1985, marginal royalty rates on both old and new oil and natural gas were reduced in stages over a two year period from 45 per cent to 40 per cent on old production and from 35 per cent to 30 per cent on new production.

The Alberta Royalty Tax Credit to small producers provides a royalty tax credit to persons who are required to pay royalties in the Province of Alberta. This credit was equal to 95 per cent of royalty obligations to a maximum of $3 million per eligible company or investor during 1987. On January 1, 1988 this credit was reduced to 75 per cent of royalties up to a maximum of $3 million.

The Alberta government has replaced its incentive grant program with a new system of royalty holidays. A royalty holiday applies to all conventional crude oil wells drilled outside existing pool boundaries on or after October 1, 1986. On qualifying wells, companies are eligible for a royalty holiday of 60, 36 or 12 production months up to October 1, 1993, depending upon when the particular well was drilled. The program will expire on October 31, 1989. In respect of new natural gas wells, the Alberta government has decided to retain the existing 12 month royalty holiday for exploratory natural gas wells provided by the Exploratory Gas Well Incentive Program announced by the Alberta government on June 24, 1985. This royalty holiday for exploratory natural gas wells amounts to the greater of a 12 month royalty holiday to a maximum of $2 million per well or a royalty exemption dollar amount applied against royalties payable calculated from a depth related schedule. In respect of any natural gas wells that have been deepened, the 12 month time period exemption does not apply and the benefits are computed only on the basis of the depth related schedule, subject to the $2 million maximum per well. Benefit entitlements must be used on or before May 31, 1998. Effective June 1, 1985, all wells drilled into new gas pools or extensions of existing pools located below a depth of 2500 metres receive a royalty holiday defined in terms of a dollar amount applied against royalties payable that increases with depth and effectively covers 100 per cent of the incremental drilling costs below a depth of 2500 metres. There is no time limit on this program.

Effective January 1, 1987 a new royalty/tax structure for oil was introduced in Saskatchewan which provides for lower royalties and taxes when lower market prices exist and higher royalties and taxes when higher market prices exist. In addition, relief for lower productivity oil wells and expanded incentives for new development activity have been announced. In some circumstances, the royalty/tax holiday originally introduced in July 1982 has been temporarily extended to provide a one to three year royalty or tax holiday. In addition, a price and production sensitive royalty structure for natural gas was introduced effective January 1, 1987. The Government of Saskatchewan has also announced deregulation of natural gas prices and a tax on natural gas production from freehold lands, both effective January 1, 1987. The price incentives to encourage gas self-sufficiency in the Province of Saskatchewan originally announced on July 17, 1985, remain in effect.

On August 1, 1985, the government of British Columbia announced royalty holidays for oil wells drilled in that province between June 30, 1985 and June 30, 1989. Exploratory wells qualify for a three year exemption, while other types of oil wells are entitled to a two year royalty-free period.

Reserves Summary

As at December 31, 1987

	Gross Reserves		Net Reserves	
	Oil & NGLs	Natural Gas	Oil & NGLs	Natural Gas
	(Mbbls)	(Bcf)	(Mbbls)	(Bcf)
Canada				
Proven — Producing	18,848	218.8	15,211	171.8
— Non-producing	3,250	217.2	2,332	175.1
Total Proven	22,098	436.0	17,543	346.9
Probable	7,107	94.5	5,467	71.5
Proven & Probable	29,205	530.5	23,010	418.4
United States				
Proven — Producing	115	2.0	85	1.3
— Non-producing	—	0.4	—	0.3
Total Proven	115	2.4	85	1.6
Probable	—	0.1	—	—
Proven & Probable	115	2.5	85	1.6
Total				
Proven — Producing	18,963	220.8	15,296	173.1
— Non-producing	3,250	217.6	2,332	175.4
Total Proven	22,213	438.4	17,628	348.5
Total Probable	7,107	94.6	5,467	71.5
Proven & Probable	29,320	533.0	23,095	420.0

	Present Value Table			
	Undis-counted	Discounted		
		10%	15%	20%
		(Millions of Dollars)		
Canada				
Proven — Producing	$ 942	$ 408	$ 311	$ 248
— Non-producing	643	156	90	57
Total Proven	1,585	564	401	305
Probable	250	51	31	20
Proven & Probable	1,835	615	432	325
United States				
Proven — Producing	5	3	2	1
— Non-producing	1	—	—	—
Total Proven	6	3	2	1
Probable	—	—	—	—
Proven & Probable	6	3	2	1
Total				
Proven — Producing	947	411	313	249
— Non-producing	644	156	90	57
Total Proven	1,591	567	403	306
Total Probable	250	51	31	20
Proven & Probable	$1,841	$ 618	$ 434	$ 326

Reserves by Geographical Area

As at December 31, 1987

	Oil and NGLs		Natural Gas	
	Gross	Net	Gross	Net
	(Mbbls)		(Bcf)	
Proven				
Alberta	19,593	15,589	264.6	199.9
Saskatchewan	1,393	1,022	148.2	129.7
British Columbia	1,112	932	23.2	17.3
United States	115	85	2.4	1.6
Total Proven	**22,213**	**17,628**	**438.4**	**348.5**
Probable				
Alberta	5,817	4,551	76.5	58.1
Saskatchewan	821	541	1.5	1.5
British Columbia	469	375	16.5	11.9
United States	–	–	0.1	–
Total Probable	**7,107**	**5,467**	**94.6**	**71.5**
Total Proven & Probable	**29,320**	**23,095**	**533.0**	**420.0**

Oil and Natural Gas Liquids Production

	1987	1986	1985
Production by Quarter (Bbls/d)			
1st Quarter	**4,927**	2,668	2,267
2nd Quarter	**5,021**	2,429	2,182
3rd Quarter	**5,854**	2,472	2,157
4th Quarter	**6,041**	4,091	2,708
Operating Income by Geographic Area ($000s)			
Alberta	**$19,561**	$ 7,467	$13,156
Saskatchewan, B.C.	**3,228**	1,143	3,045
United States	**206**	250	1,055
Total	**$22,995**	$ 8,860	$17,256
Pre-Tax Unit Netback ($ per Bbl)			
Alberta	**$ 12.04**	$ 8.96	$ 21.75
Saskatchewan, B.C.	**$ 10.73**	$ 6.09	$ 19.45
United States	**$ 2.98**	$ 3.25	$ 13.34
Total	**$ 11.53**	$ 8.24	$ 20.30

Natural Gas Production

	1987	1986	1985
Production by Quarter (Mcf/d)			
1st Quarter	**35,600**	19,300	13,361
2nd Quarter	**20,600**	10,728	6,777
3rd Quarter	**25,569**	10,896	5,148
4th Quarter	**36,948**	24,604	14,762
Operating Income by Geographic Area ($000s)			
Alberta	**$ 6,776**	$ 4,187	$ 4,051
Saskatchewan, B.C.	**2,789**	2,772	1,338
United States	**191**	977	914
Total	**$ 9,756**	$ 7,936	$ 6,303
Pre-Tax Unit Netback ($ per Mcf)			
Alberta	**$ 0.94**	$ 1.17	$ 1.78
Saskatchewan, B.C.	**$ 0.85**	$ 1.61	$ 1.39
United States	**$ 0.57**	$ 1.53	$ 2.18
Total	**$ 0.90**	$ 1.31	$ 1.73

Capital Expenditures

	1987				
	Total	Alberta	Sask.	Other Can.	U.S.
	(thousands of dollars)				
Lease acquisition costs and rentals	**$10,320**	$ 6,475	$3,424	$ 314	$ 107
Exploration costs	**12,323**	6,377	3,340	1,895	711
Development and equipment costs	**18,421**	7,315	10,186	809	111
Capitalized general administration costs	**3,084**	1,631	939	514	–
Other fixed assets	**1,122**	1,122	–	–	–
Government incentives	**(5,026)**	(1,926)	(2,260)	(840)	–
Property development financing	**(7,968)**	–	(7,968)	–	–
Net capital expenditures	**$32,276**	$20,994	$7,661	$2,692	$ 929

Interest Coverage

	Years ended		
	1987	1986	1985
	(thousands of dollars)		
Earnings			
Earnings before deferred taxes, write-down and extraordinary gain	**$12,710**	$ (546)	$16,169
Add: interest expense	**9,319**	4,048	1,904
Earnings before deferred taxes, write-down, extraordinary gain and interest expense	**$22,029**	$ 3,502	$18,073
Interest expense and preferred dividends	**$ 9,469**	$ 5,777	$ 4,744
Interest and preferred dividend coverage (times)	**2.3**	0.6	3.8
Cash flow from operations			
Cash flow from operations before interest expense	**$38,977**	$12,876	$24,498
Interest and preferred dividend coverage (times)	**4.1**	2.2	5.2

Capitalized Administration and Interest Costs

	1987	1986	1985
	(thousands of dollars)		
General administration costs			
Charged to earnings	**$ 5,573**	$ 5,707	$ 3,077
Capitalized	**3,084**	2,400	2,957
Total	**$ 8,657**	$ 8,107	$ 6,034
Capitalized general administration costs as a % of total	**35.6%**	29.6%	49.0%
Interest costs			
Charged to earnings	**$ 9,319**	$ 4,048	$ 1,904
Capitalized	**–**	–	–
Total	**$ 9,319**	$ 4,048	$ 1,904
Capitalized interest as a % of total	**0.0%**	0.0%	0.0%

Shareholder Information

Selected Quarterly Financial Data

	Revenues	Earnings (Loss) Before Taxes	Net Earnings (Loss) Before Unusual or Extraordinary Items	Net Earnings (Loss)	Cash Flow From Operations
			(thousands of dollars)		
1987 — first quarter	$13,705	$ 2,773	$ 1,395	$ 1,395	$ 6,788
— second quarter	11,989	2,711	1,340	3,498	5,936
— third quarter	15,968	4,552	2,867	2,867	8,860
— fourth quarter	16,557	2,674	2,477	2,477	8,074
	$58,219	**$12,710**	**$ 8,079**	**$ 10,237**	**$29,658**
1986 — first quarter	$ 8,387	$ 2,802	$ 1,112	$ 1,112	$ 4,909
— second quarter	5,574	114	83	83	2,453
— third quarter	4,956	(258)	108	(47,673)	1,685
— fourth quarter	10,318	(3,204)	(3,314)	(6,720)	(219)
	$29,235	**(546)**	**$(2,011)**	**$(53,198)**	**$ 8,828**
1985 — first quarter	$ 9,207	$ 4,737	$ 1,413	$ 1,413	$ 5,836
— second quarter	7,987	3,386	1,224	1,224	4,750
— third quarter	7,437	3,166	2,075	2,075	4,438
— fourth quarter	9,934	4,880	2,607	2,607	7,570
	$34,565	**$16,169**	**$ 7,319**	**$ 7,319**	**$22,594**

Prior years' amounts have been restated to conform with the presentation adopted for the current year.

Key Ratio Analysis

	1987	Proforma 1986	1986	1985
Price/cash flow ratio	**5.2**	8.7	9.8	3.8
Price/earnings ratio	**19.4**	—	—	19.2
Long-term debt to common shareholders' equity	**0.5**	0.5	0.5	0.1
Long-term debt to annual cash flow	**3.6**	5.1	10.2	0.9

Common Share Capital

	December 31, 1987
	(thousands)
Issued and outstanding common shares	20,667
Reserved for:	
Exercise of common share purchase warrants	
— Outstanding	1,013
— To be issued upon conversion of Precambrian's 9% debentures	536
Exercise of employee stock options	469
	22,685
Shares held by subsidiary — Bluesky Oil & Gas Inc.	1,058
Fully diluted number of common shares	**23,743**

Trading Range of Shares

Year	High	Low	Close	Share Volume
1987	$15.00	$ 7.50	$ 7.75	8,686,576
1986	$10.35	$ 6.30	$ 8.63	1,790,955
1985	$14.70	$ 9.45	$10.20	1,474,280
1984	$15.75	$10.50	$13.35	1,545,913
1983	$ 9.00	$ 4.80	$ 7.00	4,819,401

Five Year Financial Review

	1987	Proforma 1986	1986	1985	1984	1983
		(thousands of dollars except per share amounts)				
Revenue						
Oil and gas production, net of royalties	**$ 47,505**	$ 43,428	$ 25,142	$ 30,047	$ 27,010	$ 14,663
Alberta royalty tax credit	**6,184**	4,166	2,079	1,890	2,000	1,934
Other income	**4,530**	2,686	2,014	2,628	4,642	2,452
	58,219	50,280	29,235	34,565	33,652	19,049
Expenses						
Production	**13,183**	13,186	8,308	6,487	5,678	3,252
Administration	**5,573**	5,472	5,707	3,077	2,737	2,180
Interest – short-term	**214**	327	319	650	960	347
– long-term	**9,105**	8,730	3,729	1,254	1,310	1,327
Depletion and depreciation	**16,845**	15,357	9,165	6,798	5,579	3,616
Other	**201**	298	2,449	130	101	47
Minority interest	**388**	2,058	104	–	–	–
	45,509	45,428	29,781	18,396	16,365	10,769
Earnings (loss) before taxes and unusual and extraordinary items	**12,710**	4,852	(546)	16,169	17,287	8,280
Income and other taxes						
Deferred income taxes	**4,631**	5,165	1,245	6,873	8,993	3,047
Petroleum and gas revenue taxes	**–**	923	220	1,977	2,654	1,132
	4,631	6,088	1,465	8,850	11,647	4,179
Net earnings before unusual and extraordinary items	**8,079**	(1,236)	(2,011)	7,319	5,640	4,101
Write-down of property, plant and equipment	**–**	–	(51,187)	–	–	–
Extraordinary gain on sale of investment	**2,158**	–	–	–	–	–
Net earnings	**10,237**	(1,236)	(53,198)	7,319	5,640	4,101
Preferred share dividends	**150**	–	1,729	2,840	3,488	968
Net earnings attributable to common shareholders	**$ 10,087**	$ (1,236)	$ (54,927)	$ 4,479	$ 2,152	$ 3,133
Net earnings per common share after preferred dividends						
Before unusual and extraordinary items	**$ 0.40**	$ (0.07)	$ (0.37)	$ 0.53	$ 0.25	$ 0.38
After unusual and extraordinary items	**$ 0.51**	$ (0.07)	$ (5.46)	$ 0.53	$ 0.25	$ 0.38
Cash flow from operations	**$ 29,658**	$ 17,706	$ 8,828	$ 22,594	$ 20,192	$ 10,692
Cash flow from operations per common share	**$ 1.49**	$ 0.99	$ 0.88	$ 2.66	$ 2.39	$ 1.27
Net expenditures for property, plant and equipment	**$ 32,276**	$ 30,107	$ 21,627	$ 37,474	$ 38,569	$ 27,528
Working capital (deficiency)	**$ 1,685**	$ 8,007	$ 8,007	$ (6,763)	$ 16,863	$ 13,824
Total assets	**$407,720**	$365,058	$365,058	$259,379	$246,577	$214,166
Long-term debt	**$105,677**	$ 90,206	$ 90206	$ 20,344	$ 13,540	$ 13,739
Common shareholders' equity	**$209,352**	$171,039	$171,039	$165,874	$160,658	$158,252

Five Year Operations Review

	1987	Proforma 1986	1986	1985	1984	1983
Reserves – proven and probable						
Oil and NGLs (Mmbbls)	**29.3**	28.2	28.2	13.5	11.8	10.2
Natural gas (Bcf)	**533.0**	498.0	498.0	388.0	363.0	299.0
Daily Production						
Oil and NGLs (Bbls/d)	**5,465**	5,220	2,915	2,329	2,104	1,169
Natural gas (Mmcf/d)	**29.7**	28.7	16.4	10.0	7.1	4.7
Land Holdings						
Gross acres (000s)	**5,316**	6,568	6,568	2,474	2,387	2,273
Net acres (000s)	**1,205**	1,163	1,163	843	675	515
Drilling Activity (gross)						
Oil wells	**64**	55	26	64	95	71
Gas wells	**97**	39	18	69	69	26
Dry and abandoned	**36**	39	22	34	50	32
Total	**197**	133	66	167	214	129
Success rate	**81.7%**	70.7%	66.7%	79.6%	76.6%	75.2%

Prior years' comparative amounts have been reclassified to conform to the current year's presentation. Proforma 1986 financial and operating information has been provided to show what the results of the Company would have been had the combination of Bluesky Oil & Gas and Precambrian Shield Resources occurred on January 1, 1986. This proforma financial information has also been adjusted to eliminate the effect of unusual or non-recurring items.

Directors

Daryl E. Birnie *Calgary, Alberta*	President and Chief Executive Officer, Mark Resources Inc.
Barry W. Harrison *Calgary, Alberta*	Chairman, Mark Resources Inc. and President, Yokara Management Inc., a private management consulting firm.
Klaus Hebben *London, England*	Chairman, CAL Futures Limited, a commodity, currency and financial futures company based in London, England.
V. L. Horte *Calgary, Alberta*	President, V.L. Horte Associates, a private oil and gas consulting company based in Calgary, Alberta.
Andrew Janisch *Calgary, Alberta*	President, Quintana Exploration Canada Ltd., an oil and gas exploration and production company based in Calgary, Alberta.
James W. Leech *Toronto, Ontario*	President, Unicorp Canada Corporation, a Canadian owned company with operations in energy production, marketing and transportation; U.S. real estate and financial services; and merchant banking.
George S. Mann *Toronto, Ontario*	Chairman of the Board, Unicorp Canada Corporation.
Stewart D. McGregor *Edmonton, Alberta*	Executive Vice President, Numac Oil & Gas Ltd., a publicly traded oil and gas exploration and development company based in Edmonton, Alberta.
Antonie Vanden Brink *Calgary, Alberta*	President and Chief Operating Officer, Trimac Limited, a publicly traded drilling, trucking and oil and gas company based in Calgary, Alberta.
Dietrich von Boetticher *Munich, West Germany*	Partner, v. Boetticher, Bernet & Partners, Barristers and Solicitors, Munich, West Germany.
John B. Zaozirny *Vancouver, B.C.*	Associate Counsel, Shrum, Liddle & Hebenton, Vancouver, B.C. and Black and Company, Calgary, Alberta.

Officers

Daryl E. Birnie, *P.Geoph.* *President and Chief Executive Officer*	With Mark Resources Inc. since March 21, 1988. Previously with Encor Energy Corporation Inc. from 1985 to 1988; Voyager Energy Inc. from 1979 to 1985 and in other oil and gas industry positions since 1957.
Arthur C. Eastly, *P.Eng.* *Senior Vice President, Operations*	With Mark Resources Inc., formerly Bluesky Oil & Gas Ltd., from 1975 to present and Precambrian Shield Resources Limited from November 1986 to present. Previously in other oil and gas industry positions since 1958.
Peter B. Boulanger, *P.Eng.* *Vice President, Production*	With Mark Resources Inc. from November 14, 1986 to present and Precambrian Shield Resources Limited from June 1980 to present. Previously with Petroleum Royalties Limited from 1978 to 1980 and in other oil and gas industry positions since 1969.
James R. Good, *P.Geol.* *Vice President, Exploration*	With Mark Resources Inc. from November 14, 1986 to present and Precambrian Shield Resources Limited from June 1985 to present. Previously with Canadian Superior Oil from 1968 to 1986.
James K. Wilson, *C.A.* *Treasurer*	With Mark Resources Inc. from November 14, 1986 to present and Precambrian Shield Resources Limited from April 1982 to present. Previously with Clarkson Gordon, Chartered Accountants from 1976 to 1982.
Gordon J. Kerr, *C.A.* *Controller*	With Mark Resources Inc., formerly Bluesky Oil & Gas Ltd. from 1979 to present and Precambrian Shield Resources Limited from November 1986 to present. Previously with Winspear Higgins Stevenson & Co., Chartered Accountants from 1976 to 1979.
Clement J. Benteau, *P.Geol.* *Exploration Manager*	With Mark Resources Inc., formerly Bluesky Oil & Gas Ltd. from 1979 to present and Precambrian Shield Resources Limited from November 1986 to present. Previously with Amoco Canada Petroleum Company Limited from 1975 to 1979.

Corporate Information

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Saskatchewan Oil and Gas	1420 Chateau Towers 1920 Broad Street Regina, Saskatchewan S4P 3V2 (306) 359-7141
Gas Marketing	PSR Gas Ventures Inc. 1310 Trimac House 800 - 5th Avenue S.W. Calgary, Alberta T2P 4A4 (403) 234-9744
Oil Marketing	Onoma Oil Marketing, Inc. 1310 Trimac House 800 - 5th Avenue S.W. Calgary, Alberta T2P 4A4 (403) 234-9744
Bankers	Bank of Montreal, Calgary
Auditors	Price Waterhouse, Calgary
Legal	Atkinson, McMahon, Calgary
Transfer Agent	Canada Trust Company Calgary, Toronto, Montreal
Listing	The Toronto Stock Exchange

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Produced by Titian Communications Ltd.
Printed in Canada

Mark Resources Inc.
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